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TRADE ADJUSTMENT ASSISTANCE—1985

HEARING

BEFORE THE

SUBCOMMITTEE ON INTERNATIONAL TRADE

OF THE

COMMITTEE ON FINANCE

UNITED STATES SENATE

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TRADE ADJUSTMENT ASSISTANCE—1985

TUESDAY, SEPTEMBER 17, 1985

U.S. SENATE,
SUBCOMMITTEE ON INTERNATIONAL TRADE,
COMMITTEE ON FINANCE,
Washington, DC.

The subcommittee met, pursuant to notice, at 2:13 p.m. in room SD–215, Dirksen Senate Office Building, Hon. John Danforth (chairman) presiding.

[The press release announcing the hearing and the prepared statements of Senators Roth and Baucus follow:]

[Press Release No. 85–070, Aug. 19, 1985]

HEARING SET SEPTEMBER 17 ON TRADE ADJUSTMENT ASSISTANCE

The Senate Committee on Finance has set a Subcommittee on International Trade hearing September 17 to consider bills to extend and reform the Trade Adjustment Assistance Program, Chairman Bob Packwood (R-Oregon) said today.

The Subcommittee on Trade will review the proposals at a hearing beginning at 2 p.m., Tuesday, September 17, 1985, in Room SD–215 of the Senate Dirksen Office Building in Washington.

Senator John C. Danforth (R-Missouri), Chairman of the Subcommittee on International Trade is to preside at the hearing.

Senator Packwood said that S. 1544, the Trade Adjustment Assistance Extension and Reform Act of 1985, was introduced last month by Senator William V. Roth, Jr. (R-Delaware), a member of the Committee.

The bill merges S. 23, which was introduced early this year by Senators Daniel Patrick Moynihan (D-New York) and John Heinz (R-Pennsylvania) and the Trade Adjustment Assistance (TAA) provisions of S. 234 (the Trade Expansion Act of 1985), which was introduced by Senators Roth, John Chafee (R-Rhode Island) and Steve Symms (R-Idaho). S. 23 called for the extension of the TAA program and S. 234 proposed an improved TAA program to be funded by a small fee on imports, Senator Packwood explained.

The Subcommittee will also consider S. 1459, the Job Security Bank Act of 1985, introduced last month by Senator Bill Bradley (D-New Jersey), who is a co-sponsor of S. 1544. Although different in several respects from S. 1544, S. 1459 would likewise fund an improved TAA program through a small import fee.

The current TAA program expires September 30, 1985. It is the only federal program specifically designed to assist Americans forced out of their jobs by imports.

PREPARED STATEMENT OF SENATOR ROTH

It is not often that a piece of trade legislation is cosponsored by so many members of this committee. But on the issue of Trade Adjustment Assistance I have found that there is bipartisan agreement and there is agreement among members with otherwise different views on trade policy. And I am delighted to learn that the administration is now reevaluating its position on this issue.

Let me take just a few moments to explain why I think support from all quarters is emerging for extension and reform of the Trade Adjustment Assistance Program. To understand the importance of this legislation requires some economic and political perspective.

The economic facts show that this country in now experiencing a trade shock. I characterize the situation as a shock not just because of the magnitude of our global trade deficit ($123 billion in 1984 and higher this year) but more specifically because imports are now hurting the full range of American industries, from textiles to semiconductors.

And these economic facts have brought with them two clear political realities: first, protectionism is more intense than at any recent period and second, the need for help for individuals hurt by imports is greater than ever.

This raises the question that is the central focus of this hearing: Is this the time to let the Trade Adjustment Assistance Program expire? Because indeed it will expire on September 30 unless the Congress acts to prevent it.

I certainly think the answer to this question is a resounding no, for three reasons.

First, this in no time to renege on the commitment the Congress made to help workers hurt by trade expansion in the 1962 and again in the 1974 trade acts. In fact, we are at the very point in time at which we are being called on to deliver on our commitments.

Second, failure to seriously address the adjustment issue and failure to help those hurt by trade can only exacerbate the already difficult policy-making environment, making it even less likely that we will be able to define a responsible trade policy for the 1980s and 1990s.

Third, and most obvious, this is no time to let Trade Adjustment Assistance expire because we will leave many people in the lurch.

Make no mistake, the Job Training Partnership Act is no substitute for the Trade Adjustment Assistance Program.

The Trade Adjustment Assistance Program is the only program that provides workers not only with training, job search and job relocation help, but also with additional unemployment compensation.

From a policy point of view, how can we be sure workers hurt by trade get help under JTPA? With TAA, on the other hand, we are assured that those to whom we have made a commitment get help.

Still, support for Trade Adjustment Assistance had been floundering. Why? Because of the costs, because the current program does not have a good record in promoting adjustment and because some have been concerned that we should not have an assistance program targeted for a specific category of workers.

On this last point, let me make two comments. The issue of discrimination has to a large degree been mooted by economic developments. Today it is estimated that 70 and 80 percent of U.S. production faces import competition, so most dislocated workers would have an opportunity to be certified for this program. Second, to some degree this question is irrelevant, we have a special legal and longstanding commitment to trade-impacted workers.

The issues of money and adjustment are the focus of the reforms in my bill, S. 1544. Adjustment would be encouraged because participation in retraining would be a requirement for receipt of additional unemployment compensation. Workers would receive a new benefit, a $4000 voucher to be used to finance this retraining. Funding would be handled through a small fee—adjustment fee—on imports.

As the AFL-CIO has pointed out this legislation is not a substitute for a fair and effective trade policy. But it is the bottom line for the U.S. worker and it cannot wait for the broader debate on trade. I would propose that we call a short truce in the greater trade debate and move this legislation to the floor before September 30 to prevent the expiration of this program.

Prepared Statement of Senator Max Baucus

Mr. Chairman, I congratulate you on holding this hearing. Adjustment assistance must be an essential part of an open trade policy. Unfortunately, it's a part this Administration has ignored.

Even in a world with no unfair trade practices there would be changes. Over time some industries would grow and others shrink. Plant sites shift.

Theorists and ideologues stand back and nod knowingly about the need for a nation's economy to adapt and change. They see these changes abstractly. But you and I see real people—men and women who have worked hard and now face unemployment. Workers who are told "you're doing a great job, but we don't need you any more."

A great Nation owes its workers more than that.

Yes, even fair trade will create dislocation. We can stand back and watch the pain that dislocation creates, or we can act. We can take steps to ease the pain of adjustment and to help our workers adapt to a changing world.

I believe the American people want a government that is both sensible and caring. I don't think we were elected to ignore the pain created by changes in the world economy.

The trade adjustment assistance program was created to cushion the blow for workers in trade-impacted industries. Unfortunately it has too often served as unemployment compensation—a kind of "gold watch." I'm pleased to be a cosponsor of legislation before us to extend and refocus the Trade Adjustment Assistance Program on Trade readjustment—to help our workers retrain.

Last month the President denied relief to the shoe industry—despite a recommendation by the International Trade Commission. Instead he directed the Secretary of Labor to develop an adjustment program for workers in the shoe industry.

The President missed the point. It is not either/or. Trade readjustment assistance must be a central part of the section 201 process.

A trade policy must have several parts: a plan for bringing the dollar back into line; aggressive advocacy for U.S. companies and constant pressure to open other country's markets; a willingness to enforce trade laws to protect U.S. rights; a commitment to helping companies and workers adjust to foreign competition.

Unfortunately, this administration has had no coherent trade policy. It has professed fealty to the religion of pure free trade while offering piecemeal protection to some favored industries and denying it to others equally deserving under the law. It has failed to demand equal treatment from our trading partners. And it has callously ignored the human cost of industrial dislocation.

Like you Mr. Chairman, I am encouraged by the President's decision to create a Cabinet Council on Adjustment. Secretary Brock's knowledge of our trade problems will help him in addressing the pain of dislocation.

I am, however, struck by the timing of this council's creation. Adjustment is not a new problem or challenge. For 4 years this administration has callously ignored the problem. I hope the new awareness is real. We cannot, however, let the Trade Adjustment Assistance Program expire while we await the Cabinet Council's deliberation.

I am pleased to join with a majority of this committee in supporting legislation to renew and restructure the trade adjustment assistance program. We owe our workers and our Nation prompt action.

Senator DANFORTH. This is a hearing on trade adjustment assistance and on several proposals for the extension of a Trade Adjustment Assistance Program.

I would like to begin the hearing by reading a letter to me dated today, September 17, 1985, from Secretary of Labor Brock.

Dear Jack, an effective worker adjustment plan is a gcal of this Administration. Our ability to respond successfully and promptly to worker adjustment needs is currently receiving careful review.

To this end, the President has asked me to convene and chair a Cabinet Working Group on Adjustment. This group has been charged with examining how existing programs can be made more responsive to dislocated workers and considering policy options for longer term structural changes.

I look forward to working with you and Members of your Subcommittee, as well as the full Senate Finance and Ways and Means Committees in crafting a successful plan. I believe our joint efforts can produce an effective legislative proposal.

A number of us have been concerned about the overall situation in international trade, and especially about what trade problems mean to individuals who are affected by them.

It has sometimes been said that there is net job growth in this country, more people are employed now than were 1 year ago, 2 years ago, and so on. That is good news; but it is not particularly good news for people who happen to be in industries that have died out, who have been employed in plants that have closed down, and who have lived in communities that have been devastated by unemployment caused by trade difficulties.

So, the overall health of the country is something that we all hope for and rejoice in, but sometimes that doesn't mean much for

people in, for example, Windsor, MO, where the shoe factory just closed down.

We are fortunate today to have two bills to consider at this hearing and a very distinguished group of witnesses, and also fortunate to have this encouraging letter from the Secretary of Labor.

The one problem we have this afternoon is that there are a number of votes on the floor of the Senate. One of them is now in progress. So, the members of the subcommittee are going to be coming and going, and hopefully not recessing too much during the course of the afternoon. For that, I apologize to the witnesses who are here and to the audience, but there is absolutely nothing we can do about it.

First on the list is a panel. The panel consists of Mr. Vince Trivelli, legislative representative, AFL–CIO; Mr. Jack Sheinkman, secretary-treasurer, Amalgamated Clothing & Textile Workers Union; Mr. Jack Sheehan, legislative director, U.S. Steelworkers of America; Mr. Rick McHugh, associate general counsel at United Auto Workers.

Gentlemen, thank you very much. Unless you have better ideas, we will proceed in the order in which your names appear on the witness list.

Mr. Trivelli, would you like to go first?

Mr. TRIVELLI. Sure.

STATEMENT BY VINCE TRIVELLI, LEGISLATIVE REPRESENTATIVE, AFL–CIO, WASHINGTON, DC

Mr. TRIVELLI. I am pleased to have this opportunity to present the AFL–CIO's views on the important subject of trade adjustment. I urge you to complete your consideration in a timely manner in order to assure that the program of Trade Adjustment Assistance does not terminate on September 30.

The AFL–CIO does not view trade adjustment assistance as a substitute for a fair and effective trade policy. Such a policy should include the tightening and streamlining of U.S. trade laws, the imposition of tariff surcharges or quotas on countries that maintain excessive trade surpluses with the United States, a directive to the President to begin international negotiations to lower the dollar's exchange value, and the enactment of industry-specific measures such as the Textile and Apparel Trade Enforcement Act and telecommunications legislation.

The AFL–CIO is particularly pleased with the provisions of S. 1544 and S. 1459, which return the funding of the program to the original concept of a trust fund tied to an import surcharge. We agree with the assessment of Senator Bradley that the import surcharge is a "fair financing mechanism for the program that has no budget impact."

The AFL–CIO has always supported provisions for training. We are concerned, however, with provisions of S. 1544, which would deny trade adjustment assistance to workers who, through no fault of their own, are unable to secure suitable training. If such training is not readily available, they should not be denied Trade Adjustment Assistance.

We believe also that the committee must enlarge the definition of what it considers training. There are many forms of training which can meet overall criteria, address the particular needs of workers and not be traditional training. The committee should include in its definition of "training" such programs as job search skills, English as a second language, and a high school diploma.

The bills before the committee legislate the concept of the training voucher, which provides displaced workers with a greater role in selecting appropriate training, and have that training paid for. We endorse such flexibility. It is important, however, that displaced workers not be forced into programs established under the Job Training Partnership Act. The Job Training Partnership Act, with its abysmal underfunding and its lack of income support for workers, is totally inadequate to meet the Nation's employment and training needs.

We would like to compliment the sponsors of S. 1459 for including a number of reforms in the program, the most important of which recognizes that industries not directly impacted by imports are nonetheless adversely affected. The independent suppliers of parts and services to impacted industries suffer employment losses directly related to the declines in the primary industry.

Let me close by reiterating the importance with which we view the continuation of Trade Adjustment Assistance.

The existing trade deficit represents the loss of 3 million jobs in the United States. This is not a problem that will quickly go away. It will not be lessened by allowing early withdrawals from IRA's or by making token efforts at sanctions against unfair trade practices. The problem will only be solved through a comprehensive trade policy which includes a workable Trade Adjustment System Program.

We urge your speedy consideration of this reauthorization.

Senator DANFORTH. Thank you, sir.

Mr. Sheinkman.

[Mr. Trivelli's written testimony follows:]

85-44

**Testimony of Vincent Trivelli, Legislative Representative
American Federation of Labor and Congress of Industrial Organizations
on Trade Adjustment Assistance
Before the Subcommittee on International Trade
of the Senate Finance Committee
U.S. Senate**

September 17, 1985

Mr. Chairman and Members of the Committee:

I am pleased to have this opportunity to present the AFL-CIO's views on the important subject of trade adjustment. I want to thank you for your interest in this issue and I urge you to complete your consideration in a timely manner in order to assure that the program of trade adjustment assistance does not terminate on Sept. 30.

At a time when the United States trade deficit -- $123 billion for 1984 and projected to reach $150 billion in 1985 -- has reached crisis proportions, an effective trade adjustment assistance program is needed more than ever. Millions of Americans are suffering layoffs and lost job opportunities from imports. Without reauthorization the program will end at the end of this month. Such a result would be a second jolt to these unfortunate persons who lost their jobs due to U.S. trade policies and will now lose adjustment aid because of U.S. budget policies.

The commitments made to workers in the Trade Acts of 1962, 1974 and 1979 must be honored, and effective assistance in the form of cash benefits, training, job search and relocation allowances be provided.

On February 19, 1984, the AFL-CIO Executive Council adopted a statement that reaffirmed the Federation's support for the program, stating: "The Trade Adjustment Assistance program which is due to expire in September 1985 must be renewed and funding restored in order to assist those workers displaced by imports." The AFL-CIO believes that rather than elimination, which is proposed by the Administration, the program should be

expanded to extend coverage to workers employed by independent suppliers of parts and services. In addition, the standard for certification should be eased and procedures simplified to reduce delays and maximize the program's impact. Further, funding for the trade adjustment assistance program should be changed to reflect the trust fund concept originally contained in the Trade Act of 1974 with monies coming from the collection of customs duties on imports.

The AFL-CIO, however, does not view trade adjustment assistance as a substitute for a fair and effective trade policy. Such a policy should include:

* The tightening and streamlining of U.S. laws designed to provide for relief to industries and workers injured by imports and to deal with unfair trade practices.
* The imposition of tariff surcharges (as provided in H.R. 3035 and S. 1449) or quotas on countries that maintain an excessive trade surplus with the U.S.
* A directive to the President to begin international negotiations both to lower the dollar's exchange value and to bring greater stability to the exchange rate system -- an action leveraged by a temporary import surcharge on all imports.
* The enactment of industry-specific measures to counteract the difficulties encountered by individual industries, such as the Textile and Apparel Trade Enforcement Act and telecommunications legislation.

The United States is faced with the tragic reality of devastated communities and wasted human resources due to imports. A trade adjustment assistance program that includes income support, training, job search and relocation allowances is a necessary step to alleviate the suffering that results from trade.

The Committee has before it today bills representing bi-partisan efforts to reauthorize the trade adjustment assistance program. The AFL-CIO commends these efforts and pledges to continue to work with the committee to ensure that the program meets the needs of displaced workers.

The AFL-CIO is particularly pleased with the provisions of S. 1544 and S. 1459 which return the funding of the program to the original concept of a trust fund tied to an import surcharge. In recent years, trade adjustment has suffered from inadequate funding levels. Domestic budget considerations -- having no connection to the ever-growing numbers of trade-displaced workers -- have kept the program from meeting the needs of the affected population. We agree with the assessment of Sen. Bradley that the import surcharge is a "fair financing mechanism for the program that has no budget impact."

The AFL-CIO has always supported provisions for training and understands the need to ensure that displaced workers be provided with the skills necessary to adjust to a new career. We are concerned with provisions of S. 1544 which would deny trade adjustment assistance to workers who, through no fault of their own, are unable to secure suitable training. If such training is not readily available, they should not be denied trade adjustment assistance.

The Trade Adjustment Assistance Program has since its inception included income support. Clearly a worker who has lost a job needs income support while engaging in job search activities as well as while undergoing training. Since theoretically all citizens benefit from the price reductions of lower tariffs, the notion of trade adjustment assistance was that the costs of displacement should be alleviated partially by a special compensation for workers who have lost their jobs as a direct result of the U.S. government's policy of permitting an ever-increasing tide of imports into the U.S. In recent years changes have been made in the program which undercut the foundation of compensation. Tying all assistance to training all but removes the concept of compensation. Compensation should be retained.

On a practical level, the Committee must understand the varied circumstances of workers who have been or will be displaced by imports. A 25-year-old auto worker from Michigan has different needs and opportunities than a 55-year-old former textile worker from South Carolina. In considering a linkage of assistance to traditional training, the

Committee must consider such factors as:

- not all workers will benefit from training for a new career;

It is unrealistic to demand that a former textile worker who is near retirement age and who has deep roots in a small community without alternative job opportunities train for 6 months or a year for a new career.

- not all areas of the country have training programs which will meet the needs of the displaced workers;
- certain workers may not qualify for some training programs because of their inability to communicate in English, the lack of a high-school diploma, their lack of certain mathematical abilities or other factors that make training impossible.

Any program which strives to meet the needs of displaced workers must recognize the realities of their varying situations. Assistance must be provided in a way which will benefit each particular worker. While we understand the importance of training for new careers, we believe that flexibility is the key to any workable program of adjustment. Tight linkage without considering circumstances in which no suitable training program exists prevents this flexibility.

We believe that the Committee must enlarge its definition of what it considers "training." We agree with the sponsors of S. 1544 and S. 1459 that training meet minimal criteria such as the need for a reasonable expectation that the training will lead to employment. There are, however, many forms of training which can meet those overall criteria, address the particular needs of workers and not be traditional training. Training must be suitable to the worker or the program will fail in its primary mission -- to prepare displaced workers for new challenges in employment. The Committee should include in its definition of training such programs as job search skills, English as a second language, high-school diploma, etc.

Flexibility is also important in the area of payment for training. The bills before the Committee legislate the concept of the "training voucher." This is intended to provide the displaced worker a greater role in selecting appropriate training and have that training paid for. We endorse such flexibility; however, we have concern that the language contained in S. 1544 may not permit sufficient flexibility. It is important that displaced workers not be forced into programs which have been established under the Job Training Partnership Act (JTPA).

Jobless workers should have the opportunity for training in skills that lead directly to jobs. The Job Training Partnership Act of 1982 with its abysmal underfunding, its lack of income support for workers in training, and its business-dominated structure is totally inadequate to meet the nation's employment and training needs.

The JTPA Title III programs for displaced workers have been getting smaller and smaller as a result of tighter eligibility, state matching funds requirements, and the lack of adequate federal funding. In fact, states have not been using all the money that has been available because of foul-ups in state administration. This situation has been used by the Reagan Administration to justify further cuts in Title III funds.

JTPA training has averaged about 11 weeks and the rate of pay for jobs into which displaced workers trained under Title III has averaged about $4.80 compared to average hourly earnings in manufacturing of $9.50. The most effective part of Title III operations has been job search assistance rather than training as such.

States have had trouble raising required matching funds for JTPA Title III. They have been recalcitrant about pushing the program to help displaced workers. It would be wrong to lean more on an already poorly functioning program for displaced workers. TAA would suffer if put under JTPA Title III and workers would be squeezed down and out of existing TAA entitlements if they were forced into JTPA Title III displaced worker programs.

The Steelworkers have been allotted about $15 million under JTPA Title III for steel and copper workers displaced in 24 states, but the money is spread thin. Ohio, with 40,000 unemployed USW workers, received $700,000 under Title III, an average of $17 per worker.

We would like to compliment the sponsors of S. 1459 for including a number of reforms in the program which the AFL-CIO has been advocating for many years. The most important such improvement is the recognition that industries other than those directly impacted by imports are nonetheless being adversely effected. The independent suppliers of parts and services to impacted industries are suffering employment losses directly related to declines in the primary industry. We commend the recognition of this group of displaced workers and hope that the Committee's bill retains this concept.

The AFL-CIO has a major concern with S. 1459, the provisions of which reduce to 3 months the length of time for trade adjustment assistance from the existing 18 months. The AFL-CIO believes that it is unrealistic to expect a displaced worker to train for a new, life-long career in the span of 3 months. The 18-month provision should be retained.

Let me close by reiterating the importance with which we view the continuation of trade adjustment assistance. The existing trade deficit represents the loss of 3 million jobs in the United States. This is a problem that will not quickly go away. It will not be lessened by allowing early withdrawals from IRA's or making token efforts at sanctions against unfair trade practices. The problem will only be solved through a comprehensive trade policy which includes a workable trade adjustment assistance program.

We urge your speedy consideration of this reauthorization.

STATEMENT BY JACK SHEINKMAN, SECRETARY-TREASURER, AMALGAMATED CLOTHING AND TEXTILE WORKERS UNION, WASHINGTON, DC

Mr. SHEINKMAN. Mr. Chairman, I had the pleasure of appearing before this committee in July of this year on the Textile and Apparel Trade Enforcement Act, and I might say at the outset, so there is no misundertanding, we do not view trade adjustment assistance as a substitute for action in the textile and apparel industries, where our members are suffering irreparable loss; we merely look upon this as one way of attempting to meet that burden and that difficulty.

In order to expedite the time of this committee, I would request that my entire testimony be inserted in the record, and I will just hit several key points.

As you know, Mr. Chairman and members of the committee, the people who work in this industry work with pride and responsibility. They are not just statistics. We have just taken a poll of the members of our union, and they take a great deal of pride in the products that they make. They have pride in their jobs, in their industry, even though they are amongst the lowest paid industrial workers in the United States.

Unfortunately, these workers don't have language skills or abilities. Most of them have minimal education. They don't have the kinds of skills that are easily transferable to other jobs. And many work in small towns and communities where other jobs are not readily available.

Moreover, when they get additional jobs to replace the ones that they have had in our industries, they usually end up in lower paying jobs than those of the textile, apparel, and footwear industries to which our members belong.

Our true concern and the true concern of the labor movement is jobs. I want to repeat that—jobs. And how to find the bridge by which labor mobility can take place within our open economy.

First and foremost we want to preserve the industrial base of the United States, which many of us here testifying probably fear is truly threatened.

Second, we are concerned about fair and humane treatment of workers, American citizens if you will, who up to now are carrying the full cost and the full burden of what is transpiring in our economy with the flood of imports entering the U.S. market.

I feel it is incumbent upon Congress to do something to mitigate that burden. Economists now recognize that, while capital and management are mobile, workers unfortunately are not that mobile, and the labor force finding itself in such conditions needs some help.

All of this is occurring at a time when budget deficits are impelling Congress to cut back on all income maintenance programs and human welfare programs that have been in place to mitigate the very effects of the changes taking place in our economy at this time.

I have cited in our testimony what has happened to date under the TAA Program as it exists. I give an example of what has taken place in the apparel industry, where some 158,000 people since

1975 have been certified for aid, 2,700 have entered a training program, 1,400 have completed it, or less than one half of one percent.

I cite the same figures for the shoe industry, for the textile industry, and likewise indicate the failure of the Job Training Partnership Act, which in our view is not only underfunded but doesn't meet the needs taking place in our society today.

There are two major reasons, in our judgment, for why so few workers have been retrained: First, there are important social and psychological questions. Many underestimate their abilities. As I have indicated earlier, many don't have the skills, the primary skills, necessary to be retrained for the kind of high-tech society to which some economists would attempt to relegate workers who are not qualified to enter that kind of work.

They need counseling, in some instances more than training.

Second, unfortunately, our society is an open society and not a planned society. In many cases, employers cannot project the needs accurately or the changes in the marketplace, so that workers are often trained to jobs that may end up to be nonexistent due to changed economic and technological circumstances.

If basic language is a prerequisite for a very large proportion of the unemployed of our members, these workers must have the opportunity to obtain the very basic skills which they often lack.

Some other comments regarding the bill itself:

We find that the enrollment requirement, while desirable, does raise some questions. We have had all kinds of experiences of our members eligible for TAA training, and where no training is available in their communities, the funds are not available by the States, or there are no local adult educational programs.

I see that my time is up, and if the chairman wills, I would ask that the rest of my testimony be included.

I would have to request that I close with just a few more sentences.

The real issue, as I said at the outset, is jobs that can be provided to those who are unemployed by the consequences of expanded trade. It is not a problem of the individual workers' shortcomings, but the shortcomings of the economy and the governmental trade policy.

Congress must address the overall import problem, such as the Textile and Apparel Trade Enforcement Act. One is not a substitute for the other.

We are—if you will, Mr. Chairman, and members of the committee—in a time of crisis. And the time has come to act now.

Thank you very much.

Senator DANFORTH. Thank you, sir.

Mr. Sheehan.

[Mr. Sheinkman's written testimony follows:]

STATEMENT OF THE AMALGAMATED CLOTHING AND TEXTILE WORKERS UNION

Chairman Danforth and members of the subcommittee: I am Jack Sheinkman, secretary-treasurer of the Amalgamated Clothing and Textile Workers Union. Our union has a membership of approximately 360,000 workers, most of whom produce men's and boy's clothing, textile mill products, and footwear—all industries heavily impacted by imports. This bill to renew the Trade Adjustment Assistance Program (S. 1544) substantially affects our membership.

If I can take a moment at the outset to make a not so facetious point, there is a simple way to solve many of the problems with the Trade Adjustment Assistance Program and save lots of its cost—just quickly pass the Textile and Apparel Trade Enforcement Act of 1985 also before this committee.

But we cannot ignore the people who, through no fault of their own, lose their jobs due to imports and the destruction of our industries these imports produce. At least 350,000 jobs in the textile, apparel and footwear industries have been lost the last 4½ years, with only a very small portion due to productivity improvement.

You know about our workers. Workers with pride and responsibilities, not statistics. People with pride in their jobs and their industry, however unglamorous it seems to outsiders. They don't have the language abilities, the basic education minimums, the easily-transferable skills that allow them to get other jobs easily, if at all. They tend to wind up in lower paying service sector jobs if displaced, despite the textile, apparel and footwear industries being at the low end of industrial earnings.

The true concern of the labor movement is jobs and the bridge by which labor mobility takes place within our open economy.

First and foremost, we want to preserve the industrial base of the United States, which many of us testifying here today probably fear is truly threatened. Secondly, we are concerned about the humane and fair treatment of workers who carry the full cost of the benefits which other citizens of our society enjoy as a result of these imports.

When the effects of tremendous imports hit so devastatingly among a concentrated group of people in our economy as the members I speak for, it is incumbent upon Congress to do something to mitigate that burden. Economists have not recognized that management and capital are clearly much more mobile and able to cope with rapidly changing economic forces than previously thought. And the labor force has been found to be much less mobile, much less adaptable to change than was presumed. All of this is occurring at a time when budget deficits are impelling Congress to cut back on all the income maintenance and human welfare programs that had been established with great legitimacy for such a long period of time.

I must say that unless this matter is forthrightly addressed, workers will lose even greater faith in their government as an institution willing and able to address our Nation's problems. There is building an undercurrent of bitterness and hostility that will not only destroy faith in your general economic policies but undermine our foreign policy through an outgrowth of hatred towards others no one would like to see. They feel betrayed already by the failure to fulfill the commitment given in 1974 when, as a trade-off for greater expansion of international trade, workers were promised income supplements and other services so that the adjustment process would be a humane process.

That is why our union is basically supporting this bill to continue Trade Adjustment Assistance, even though several substantial changes have to be made in import policies and in this bill to make real adjustment possible and reasonable. The following suggestions come out of our direct experience in dealing with our members suffering unemployment and what the prior TAA program has done, or not done, for them.

The most important change the Roth Bill provides is a mandatory training program enrollment to receive benefits. While the voucher system is somewhat different from prior existing training programs, let me give you some feel for how successful the past TAA experience has been. Since the inception of the TAA program in April, 1975 to the latest date we have figures for, March, 1985, there have been 158,424 people certified for benefits in the apparel industry. Of that total only 2,756 have entered any kind of training program. Of this group, only 1,429 people completed training, and out of this latter group only 661 of them—or less than one-half of one percent—have actually found jobs as a consequence of their training. In addition, only one-tenth of 1 percent of the certified workers got any assistance for job search or relocation of their living quarters.

The figures in the textile industry are similar, although obviously not as many workers have been certified due to the absurd illogical exclusion of supplier industry workers in the prior law. Out of the 26,401 workers who were certified for assistance over the last decade, 784 or 3 percent went into training, 341 completed that training which is 1.3 percent of the total, and only 51 people—two-tenths of 1 percent—found jobs. Again only one-tenth of 1 percent got job search or relocation assistance.

For footwear, figures are available only for the period October, 1979 through March, 1985. Of the 22,298 workers certified, 589 entered training, 448 completed that training and 229 were placed. Sixty-six workers received job search money and 52 relocation assistance.

This is an absolute disgrace! The figures simply say that there is no meaningful retraining structure at the State or Local level who are given responsibility for administering these programs or that retraining is a complete hoax.

Our experience under the Job Training Partnership Act (JTPA) is not much better. We have had an operating program in New York City for the last year. Out of the just passed figure of 500 workers who applied, only 193 could be certified for JTPA eligibility due to its very stringent certification requirements. The program is basically geared for big plant closings, not the gradual attrition and progressively shorter hours which are the much more common situation. Of the 193 eligible, only 30 workers were put into training programs or placed in other jobs. About one-third (67) of the 193 found jobs on their own or decided to quit the labor force. So for only 6 percent of the affected workers has the JTPA program been of meaningful help.

There are two major reasons for this low figure. Most important is that the key element is not training but social and psychological services. The workers come with feelings of low self-esteem and very discouraged. They invariably underestimate their capabilities and chance to do something new. Many come with great personal problems, especially due to loss of their usual income level. A very large number of the workers in our JTPA program have already had their wages garnished due to various debts. They need counseling rather than training.

The second major reason for failure of the program is the inability of employers to project their needs accurately or changes in the market which occur during the training period. Many employers found that business had turned down, or their business moved in different directions so that they no longer could use the people who were emerging from training. Since many of the workers in the textile, apparel and footwear industry cannot speak English, the possibility of readily transferable skills being learned is just about nil. Basic language ability is a prerequisite for a very large proportion of the unemployed. Or more realistically, what do we do with workers whose major contribution to our economy can only be physical and motor skills when these are precisely the type of jobs being destroyed by imports?

One additional item regarding our JTPA experience. New York State already has a voucher-based training program in existence. The private business schools have taken advantage of the desperation and ignorance of displaced workers and completely exploited them. A striking number of these schools are outright crooks. Several of our members report being talked or coerced into signing up for $4,000 or $5,000 programs at these schools even though the State voucher has a maximum value of $1,500. They sign loan agreements or other commitments that put them into debt from which recovery is almost impossible.

Some other points regarding the Roth Bill must be made. Basing TAA money income upon enrollment in a training program will by definition prevent many people otherwise eligible to loose their chance for any kind of income support. We have had all kinds of experiences of our members eligible for TAA training assistance and no training available in their communities, found a failure of the states to fund local adult education programs, or found their benefits run out in August when the school year begins in September. The Roth Bill must be changed to conform to the basic provisions of the TAA Reauthorization Bill introduced in the House of Representatives by Congressman Pease. The House bill enables the worker to collect up to 52 additional weeks of TAA beginning with the first week the worker enters training if that training has not been approved or available until after the last week of entitlement to basic TAA benefits. Fundamental to the success of any adjustment program is absolute assurance of income.

Next, something must be done about requiring the Labor Department to conform to the law wherein decisions must be made within a 60-day time period. This has been part of the law since its inception, but I can't recall a single instance in the hundreds of applications our Union has made where the 60-day requirement has been met. Under the bill currently under consideration, it is entirely likely that workers will never be able to enjoy TAA benefits because the Labor Department's certification come too late.

Further, the discretion available to the Labor Department in certifying workers must be restricted. During the Carter Administration, at least 80 percent of our petitions were acted favorably upon; with the new Administration coming into office in 1981 there has been a complete reversal and 80 percent of our petitions were denied certification. This latter has occurred precisely during a time when imports have skyrocketed and domestic production turned down. Something must be done to reduce administrative discretion, so that workers can have predictability and knowledgeable expectations of the TAA program.

Gentlemen, ultimately the real issue is jobs that can be provided those unemployed by the consequences of expanded trade. It is not a matter of the problem

being the individual worker, or his/her shortcomings, but the shortcomings of the economy and governmental trade policy. Congress must address the overall import problem, such as through the Textile and Apparel Trade Enforcement Act for the industries I represent, while it strengthens the trade adjustment assistance program. One is not a substitute for the other. We may see our domestic economy so undermined through inaction that Congress will be forced to deal with a truly major economic crisis. We appeal to you to act before the damage can no longer be undone.

Thank you very much. I would be pleased to respond to any questions of the committee.

STATEMENT BY JOHN SHEEHAN, LEGISLATIVE DIRECTOR, U.S. STEELWORKERS OF AMERICA, WASHINGTON, DC

Mr. SHEEHAN. Thank you.

Mr. Chairman, at the outset I would like to indicate that we recognize the role that you as chairman have played in the recent past with regard to focusing attention on this mounting trade situation. I thought it also appropriate, before I begin, to also acknowledge the more or less historical role that Senator Roth played in being an advocator and a defender of the TRA program. And obviously it is his bill to which we are directing our testimony today.

One of the more threatening features of our present economic situation is the trade deficit, which as we all know has reached a record of $123 billion, doubling the amount of last year. According to the Department of Commerce we have witnessed really a turnaround in trade in the last 3 years of $92 billion, which has had a tremendous impact on the economy of the country.

The steel deficit is well-known, having preceded the current crisis in national trade policy, with imports reaching almost 33 percent 1 month last year, and for the first 7 months of this year well over a fourth, or 25 percent, of consumption. And this, despite the fact of the President's Steel Import Program; although, I must say we do anticipate a favorable reversal of the trade pressure if the July figures of 21-percent penetration is any indicator of future trends.

Nevertheless, the overall trade situation is such that the Congress and the administration are prepared to make changes in trade policy. The substantive nature of these changes and their effectiveness remains to be seen; but it would indeed be ironic if the economic injury, which is causing and precipitating the national debate for a change in the trade policy, would be ignored in determining the fate of the one trade measure which was designed to assist workers, communities, and firms to adjust to trade-imposed injury.

The Trade Adjustment Assistance Act was enacted precisely to allow readjustment when import levels cause disruption. Now, admittedly, the negative impact from trade, I assume, was expected to be more sectoral, more industry-specific maybe even more plant-specific in its nature. Today the trade policy has resulted in a pressure on industry in general, and the levels are much higher. Again, the Department of Commerce comments on that.

I make reference to this overall impact of trade on all industries, across the board, as an argument for the justification of the continuation of the TRA program now, because the scope of the injury

is much broader than was even anticipated at the time of its enactment.

Now, I am sure that those on this panel are aware of the tremendous impact that such disruptions have on workers. In steel industry alone we have come down almost 50 percent in the last 6 years. In 1979, employment averaged 453,000 workers; in June of this year it was 212,000.

The effects, however, of the import penetration in steel will not recede, no matter what we are going to be doing with the TRA's. Not only are workers being subjected to the immediate, traumatic pain of the layoffs, but because the imports have contributed to sharp acceleration of structural changes in the steel industry, steelworkers are also facing permanent plant shutdowns, the prospect of which will continue for quite some time. Some analysts are predicting that there will be further shutdowns in the steel mills amounting to almost another 20 million tons of capacity.

Mr. Chairman, in my testimony I quote from a study that was prepared for the Congress by the Department of Labor, and I would like merely to point out that it indicates the problems which are confronting steelworkers as a specific group impacted by trade. And I would like, if I could, to have this study [1] introduced in the record, together with another one from the Congressional Research that identifies and describes some of these workers.

Putting that to the side, I must say that as an institution the Steelworkers Union has also undergone a major readjustment in its approach to the problems of structural unemployment. No longer can the worker expect to return to the steel mills after the layoff occurs. The union therefore feels an obligation to acquaint him with the realities of the job situation and to encourage him to engage in job training and other job location activities. My point, Mr. Chairman, is that most of our major unions now are looking at the layoffs and saying, "What do we do with you after the layoff is over?" It is in that role, the readjustment process, it is in that aspect that TRA provides an important strategic function—that, of course, together with the JPTA program.

That is why we are now pleading for this continuation of the TRA Program, and indicate that we do agree that there is a linkage between the dislocation and finding the job, as a linkage to training, but we would suggest that the bill makes sure that the training component here is much broader than merely professional training; it takes into consideration all of the other aspects of employment-related services. As a matter of fact, we make reference to the Job Training Participation Act, which gives a broader definition, if you wish, of the word "training," to include job banks, job development, counseling services. And we hope that your bill, Mr. Roth, includes those notions in it.

The other comment I would just quickly make before the light flashes is—have I run out of time?

Senator DANFORTH. That's all right. I haven't collapsed yet. [Laughter.]

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[1] These studies are too voluminous to be printed here and are retained in committee files.

Mr. SHEEHAN. The other comment that I would make has to do with the income maintenance. It is true that in the early part of the program the workers, especially in the steel mills, got laid off, impacted by the imports, and did return to the steel mills. That is over with.

But I think, also, the early criticism of the TRA, in effect, should be over with, because workers now coming out want to get into these training programs. However, swinging into a training program immediately after the expiration of the 26 weeks of unemployment compensation period may be too short a range of period to say, "If you are not already in the training program, you are going to be cut off from your cash allowance."

We have a practice in the steel industry that many times when a worker is laid off he is put on indefinite layoff. We are not too sure whether the mill will open up or not. So we are asking that there be some flexibility in the cutoff of the income maintenance prior to entering into the training program.

We certainly feel that the voucher effort in this bill is a major step forward in pushing the idea of readjustment, of readaptation of the worker, and I would hope that whole notion could be very strongly advanced so that the TRA Program, which is the only adjustment assistance program that provides income maintenance to workers in a training program, that that essential ingredient—mainly, the income maintenance—will be preserved as one of the tools in the arsenal of the Government's effort to help workers to readjust.

You can have all the training programs possible, Mr. Chairman, but if workers don't have the subsistence allowances to stay in those programs, it is very difficult for them to try to maintain or retain their standard of living. They will have to fall into very low-paying jobs where they might otherwise have had the opportunity for higher-paying jobs, if they weren't forced by family obligations to seek jobs immediately.

Hence, I think the TRA with the income maintenance is an essential ingredient, and we commend the authors of the bill for promoting it.

We have other amendments that we mention in our testimony but I think, under the circumstances, I will close now.

Thank you, Mr. Chairman.

Senator DANFORTH. Thank you, Mr. Sheehan.

Mr. McHugh.

[Mr. Sheehan's written testimony and a report, "Manpower Policies and Unemployment," follow:]

TESTIMONY

of

John J. Sheehan, Legislative Director

UNITED STEELWORKERS OF AMERICA

before the

Senate Finance Committee

Subcommittee on Trade

on

The Extension of the

Trade Adjustment Assistance Program

September 17, 1985
Washington, D.C.

One of the more threatening features of our present economic situation is the trade deficit which reached a record $123 billion in 1984 doubling the $69.4 billion 1983 deficit. According to the Department of Commerce:

> "Growth of the deficit in manufactures trade ($20.7 billion) was by far the largest component in the growth of the 1984 deficit, as has been the case since 1981 when the U.S. had a $11.4 billion manufactures trade surplus. The intervening 3 years have witnessed a $92-billion negative swing in the U.S. manufactures trade balance."
>
> Performance in 1984 and Outlook

The steel trade deficit is well known, having preceded the current crisis in the national trade policy with imports reaching almost 33% of consumption in December 1984. For the first 7 months of 1985, steel imports are still high--26.7% despite the President's steel import program, although we do anticipate a favorable reversal of the trade pressure if the July figure of 21% penetration is any indicator of future trends.

Nevertheless, the overall trade situation is such that the Congress and the Administration are prepared to make changes in our trade policies. The substantive nature of these changes and their effectiveness remains to be seen, but it would, indeed, be ironic that the economic injury,

which is precipitating a national debate for a change in trade policy would be ignored in determining the fate of the one trade measure which was designed to assist workers, firms and communities to adjust to trade-imposed injury. Trade Adjustment Assistance (TAA) was enacted precisely to allow readjustment when import levels caused disruption. Admittedly, the negative impact of the import levels were expected to be more sectoral, industry-specific in its pressure, and not so aggregated nor so high as now:

> "The decline in manufactures performance was broadly based. Trade balances worsened in 15 of the 20 major classes of manufactures. Performance fell even in capital and high-tech goods where the U.S. has traditionally been strong. The 1984 capital goods surplus of $13 billion was about one-fourth that of 1981, while the high-tech surplus for 1984 was only $6.2 billion compared with $26.4 (billion) in 1981."
>
> Dept. of Commerce

Even more so, therefore, is the justification for the continuation of TAA as both a compensation and adjustment assistance program.

I am sure that those on this panel are aware of the tremendous impact that such disruptance has on workers. Steel industry employment has come down more than 50% in the last 6 years alone. In 1979, employment averaged 453,000. In June of this year, it was 212,900 persons. The effects of the import penetrations in steel will not recede. Not

only are workers being subjected to the immediate traumatic pain of layoffs, but, because the imports have contributed to a sharp acceleration of structural changes in the steel industry, steelworkers are also facing permanent plant shutdowns, the prospect of which will continue for some time. Some analysts are predicting a future 20 million-ton reduction in steel capacity.

In a recent study, "Causes & Remedies for Displacement of Steel Workers," mandated by the Trade and Tariff Act of 1974, the Department of Labor reported to Congress that: "Displaced Steel Workers . . . live in areas where the local labor market does not offer a bright future." The DOL report indicated:

> "These characteristics make displaced steel workers very different from the typical disadvantaged individuals who were targeted in other training and employment programs. Displaced steel workers are older, more experienced, less female, and come from the mainstream of America. They therefore have many of the important and basic job skills that disadvantaged workers often lack. Displaced steel workers have stable work histories, skills, and work experience. Their basic need is a job, and for steel workers in particular there are two obstacles typically in their way. First, the local job market often does not provide jobs that can use their current skills immediately. Hence, to find a job, a displaced steel worker must give up an occupation he has had for many years, and learn new skills. The industry specific skills gained by many steel workers in the mills are often not directly transferable to other local

> industries, except for certain craftsmen and general laborers. Secondly, since steelworkers have earned a wage considerably higher than the average for most other industries, they typically have to accept a decrease in their pay.
>
> "Neither problem alone would be easy to deal with; taken together they present a formidable obstacle for many individuals."

In another report prepared by the Congressional Research Service, "Employment in the Steel Industry: The Shape of Change," the impact of the structural changes on jobs and workers portend difficult times for steelworkers:

> "Both those workers who have been laid off from the steel industry with little likelihood of being recalled and those still employed at steel firms are being affected by the industry's dramatic shake up. For the two groups, it has meant a great blow to their job security. More specifically, for the laid-off workers, it has involved starting anew at a time in their working lives when change often is unwelcome and people are not best-equipped to handle it; for the presently-employed steelworkers, it has involved the prospect of learning to adapt to new equipment and practices. Neither the steelworkers nor their industry wanted this upheaval, but they--along with their communities--are trying to deal with it.
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> . . . . . .
>
> "Thus, not only have dislocated steelworkers had a harder time finding new jobs, but they also have had a more difficult time getting jobs that pay close to their former earnings levels. . . . Another contributing factor is that a portion of the unemployed steelworkers' former earnings reflects their industry-specific skills. Since the skills are not transferable to jobs in

> other industries, new employers will not compensate the former steelworkers for those skills. Similarly, to the extent that dislocated steelworkers' earnings were related to seniority rather than to their general skill level, it will make it more difficult for them to find new jobs offering comparable pay in other firms or industries because they will have to start at the bottom of the seniority ladder."

The report concludes that as the steel industry tries to recoup some of its market share, there will not be a similar turnaround for the work force:

> "This time, the scenario is different. The economy has recouped its losses from the recessions of the 1980s; the steel industry has not. Workers in many industries have received word to return to their former jobs, but large numbers of steelworkers remain unemployed. And they are likely to remain unemployed if they cling to the hope of recall by steel producers. The closing of entire plants, shutting down of some operations, and investment in new technologies means a downsizing of the industry--and to an even greater extent, of its workforce."

The Steelworkers, as an organization, has also undergone a major adjustment in terms of its approach to the problems of structural unemployment. No longer can the worker expect to return to the steel mills after a major layoff occurs. The union, therefore, feels an obligation to acquaint him with realities of the job situation and to encourage him to engage in job training and other job location activities. It is within this context that we urgently seek an extension

of the TAA provision as one of the component parts in a dislocated workers program.

The Trade Adjustment Assistance program is a vital component in the process of moving these unemployed back into the work force and we believe that it should be extended.

Now let me comment on the Trade Adjustment Assistance Reform and Extension Act (S. 1544) sponsored by Senator Roth and cosponsored by twelve other Senators.

1. Training Evolution

By extending the TAA program, the Congress will continue to honor the commitment to help trade-impacted workers make a necessary readjustment to their lives. This pledge of assistance was initiated in 1962 and was extended with improvements under the Trade Act of 1974.

The concept of the commitment underlying TAA benefits was twofold: On the one hand, liberalizing of our trading relationship with other nations would result in a lowering of prices as foreign goods compete with domestic ones, but, on the other hand, as a consequence of this liberalized competition, some workers and some firms would be injured. The TAA benefits would be applied both as compensation for the injury and as assistance in their readjustment.

During the early years, as steel imports began to penetrate at higher and higher precentages of domestic supply, most of our members received the extended weekly cash benefits; and, in conjunction with other benefits provided by our labor agreements, hung tough until they returned to their jobs either through the attrition of older workers or the return of production.

This early TAA experience subjected the program to intense congressional criticism. Cash benefits in many cases were delivered to workers after they had returned to work, mostly because of the long DOL certification process. After all, since the unemployment had to be cause-related, it took time to make a specific determination with regard to each petition. Few workers utilized the readjustment or training aspects of the program. According to a Labor Department study, less than 1% of the 403,000 workers who received benefits between 1975 and 1978 applied for job search or relocation allowances, and only 15,000 workers entered training.

In 1981, the program was radically changed. The weekly cash benefits were reduced to the level of state unemployment compensation. In addition, however, the Congress--which was concerned about the readjustment feature --reacted to the fact that there was no specific authorization for training funds by enacting a line item authorization.

Thus, if workers sought training opportunities, there was a greater expectation that a program would be provided although the Administration has resisted making training an entitlement. The emphasis under the new program focused on the readjustment features.

Since our members recognize that their plants are closing permanently, there has been a significantly higher number requesting retraining. The Labor Department estimates that approximately 10,000 steelworkers have entered TAA training since 1981 and approximately one-fourth of the workers who completed training have been placed in positions related to that training. Hence, concurrent with the changes in the law and with the situation in the steel mill employment, laid off workers are more realistically applying for training. The major contribution of the TAA training program is the income maintenance which is available while a worker is enrolled.

S. 1544 would move the TAA program further into the field of readjustment. As we interpret the bill, each worker certified for TAA benefits would be eligible for a voucher in the amount of $4,000 to defray the costs of a training program. In addition, workers who obtain a training voucher would be eligible to receive up to 52 weeks of cash benefits to conclude such training.

2. Training Definition

As I mentioned earlier, our union is committed to readjustment and we support this approach. However, I would like to comment on the definition of what constitutes training. A great many of our laid off steelworkers have employment skills. What skill they lack is the skill to find another job. They usually think of their skills as being exclusively those which they have employed at their job. The training programs which we are initiating under our dislocated steelworker programs include such things as skill assessment and employment profile analysis, resume writing and job search skills. We would appreciate the assurance that enrollment in these training sessions would be considered as appropriate training under the terms of this bill. Section 3 of the Roth bill references Section 303 of JTPA wherein authorized training includes "related employment services" which encompasses, but is not limited, to:

- o job search assistance, including job clubs
- o job development
- o training in job skills
- o supportive services, including commuting assistance and financial and personal counseling
- o pre-layoff assistance
- o relocation assistance

- programs conducted by employers and labor organization to provide early intervention in the event of closures of plants.

The Steel Import Stabilization Act, which became Title VIII of the Trade and Tariff Act of 1984, indicated in the House report:

> "The phrase 'retraining of workers' as used in this subparagraph relates to various types of retraining and workers assistance programs, including those directed to the enhancement of existing skills."

3. Income Maintenance

Section 2(a)(1) of the Roth bill conditions cash assistance upon enrollment in a training program. In this section, the Act more tightly--or even more rigidly--ties TAA to the adjustment process. It assumes that all workers need training--even in terms of the more broadly defined concept. However, such might not be the case. Actually, although the worker's job may be structurally eliminated, the worker himself, in terms of his skills, may not be structurally obsolete. Income maintenance, in other words, may be just as justified for the structurally displaced worker as for the cyclically unemployed worker. Therefore, we would suggest that for the trade-impacted workers a longer period of income maintenance would not be inappropriate. His transition to making a commitment to enroll in a training program should not be so abrupt that he

must make his decision before his state unemployment compensation expires. In many cases, management places workers on "indefinite layoff" status and, hence, the worker holds out expectation of return to the plant. USWA would, therefore, suggest a longer period of cash maintenance.

Furthermore, as the impact of trade reaches into many communities which may not have elaborated retraining facilities, we recommend that where there are not adequate retraining opportunities, those workers should not be deprived of their cash allowances.

4. Particular Job Skills

Section 236(c)(1) prohibits the redemption of a voucher used by a worker if such employer is engaged in the same occupation from which the worker was separated. Again, we believe the language is too restrictive. Many workers have been employed on machinery and equipment that may be outmoded. A machinist, for example, may be hireable at that occupation, but need only learn to shift from the U.S. system of measurement to the metric system. We do not believe that a readjustment proposal should preclude such training. DOL's Employment and Training Administration conducted a special survey of some 8,700 TAA participants from the steel industry who have entered training since October 1981. About one-fourth of those who completed training obtained jobs related to their fields of

training. Many of these skills were in areas related to their steel mill experience.

5. Reasonable Job Expectation

Section 3 of H.R. 1544 describes the criteria governing the approval of the training programs for which a voucher shall be made available. It is appropriate that state on-the-job training and PIC-approved JTPA programs are eligible opportunities for a TAA recipient. Currently, ETA Program Directive No. 32-83 notes: ". . . acceptance of training opportunities by eligible individuals pursuant to Section 302, JTPA, will be deemed acceptance of such training within the meaning of the (TAA) requirement." However, we suggest that subsection (4) allows the Secretary--as is now the practice--to approve training projects that are outside of the PIC process. In this way, TAA can maintain a flexibility providing a greater range of training opportunities to trade-impacted workers than might be available under JTPA.

Furthermore, criterion (4) repeats the TAA Section 236(a)(1) admonition to the DOL Secretary that he may approve training projects where "there is a reasonable expectation of employment." USWA would note that the expectation should not require that the employment opportunity be available or offered to the workers immediately upon his completion of training. This interpretation is in the House Ways & Means TAA extension provision.

6. Trust Account

S. 1544 directs the President to obtain GATT approval to impose a fee on trade to fund this readjustment program with a cap of 1% of the value of imports.

Our union has supported variations of this linkage between imports and worker readjustment before and we endose this concept contained in Senator Roth's measure. If only 1/10th of cap were authorized this year, about $350 million would be available for training opportunities for dislocated workers. Contrast this with the $54 million currently appropriated for training under the TAA program.

In conclusion, Mr. Chairman, we agree with Senator Roth's remarks that we are experiencing a "trade shock" of mind-boggling size. Some can adjust easily to the shock; other can't. Investors can move their capital from a dying industry to growth industries overnight. Working people who have worked ten or fifteen years in a plant have a deep investment in their homes and communities and have to start all over again. Their adjustment takes a long time because they have to begin it from within a deep hole. We hope that this proposal will give them a new lease on life and that the deep hole will not become a tomb.

APPENDIX
USWA DISLOCATED WORKER PROGRAM

As our name indicates, we represent workers in the basic steel industry--from iron ore extraction through all the production stages to the final steel products.

However, steelworkers are a minority of our total membership. We also represent working men and women in the copper industry, aluminum, heavy machinery, earth moving equipment, machine tools, hand tools, tableware and flatwear, lawn furniture, bicycles, chemicals and hundreds of other manufactured items.

While the crises in the steel and copper industries have received headline coverage as a consequence of the International Trade Commission's findings that imports are a significant cause of serious injury to domestic firms and workers, announcements of plant closings in these other industries have become so routine that they hardly make the front pages. The threat of moving a baseball franchise gets more space than the threat of closing a plant that has served as the economic generator of a community.

Mr. Chairman: before moving to the specific business, let me abstract from a recent study conducted by the Congressional Research Service entitled, "Employment in the Steel Industry: The Shape of Change": The conclusions drawn from that study emphasize that:

- Modernization in the domestic steel industry means a permanently reduced work force;
- Employment security among current workers is tenuous;
- For dislocated steelworkers, prospects of finding new jobs that offer comparable earnings and benefits are dim.

While these findings are given for the close to 200,000 steelworkers who have been dislocated over the past five years, they are, nevertheless, evident and conclusive.

Our union is responding to these men and women with all the resources we can marshall. We have established a Task Force on Dislocated Workers and hope to have in place soon a program for their readjustment.

In May, the Secretary of Labor initiated a plan for the readjustment of dislocated copper and steel workers in 26 states. Programs have been developed through state and local Private Industry Councils and, pending the Department's final approval, should become operable in early October.

These programs call for the establishment of Dislocated Worker Centers that will provide a comprehensive range of transition services for those who have been laid off during this current round of shutdowns.

Laid off workers will be encouraged to attend workshops in which each individual will receive an orientation to the program and be given direction in self-assessment of his/her strengths and weaknesses, assistance in the development of job search objectives, and a plan to reach those objectives.

The plan calls for the establishing job search clubs or teams to facilitate networking opportunities as well as motivation and guidance for the individual in conducting the job search.

Center personnel will develop and maintain listing of employment opportunities to which qualified individuals can apply.

Contacts will be established with local social service groups for referral of individuals with personal or familial probiems.

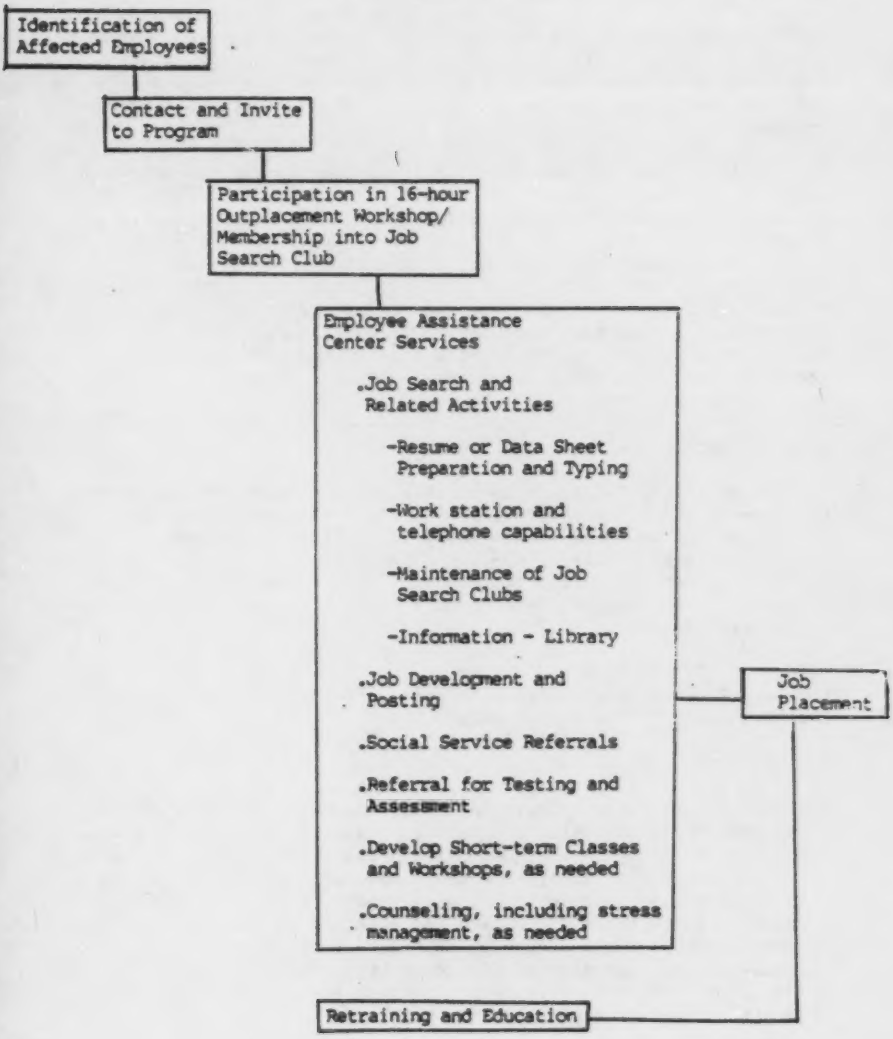
Professional testing and assessments will be conducted which would result in direct job placement or referral for remedial education or retraining.

Tomorrow at our union's training center in Pittsburgh, we will begin a series of training sessions for groups of unemployed Steelworkers whose task it will be to reach out to their laid off brothers and sisters andd advise them of the worth of these programs and encourage them to paticipate.

I would like to submit for inclusion in the record a more detailed description of those services which we hope to incorporate in all these centers.

Many of these unemployed steelworkers are of the third generation who have worked in the same mill. They have witnessed the periodic shutdowns when demand for steel was down and then have returned when the economy eventually recovered. It is most difficult for them to come to the realization that this layoff is structural in nature and, therefore, their unemployment is a permanent condition.

Overview of Program
and Services Provided


Identification of Affected Employees
Contact and Invite to Program
Participation in 16-hour Outplacement Workshop/ Membership into Job Search Club
Employee Assistance Center Services
.Job Search and Related Activities
-Resume or Data Sheet Preparation and Typing
-Work station and telephone capabilities
-Maintenance of Job Search Clubs
-Information - Library
.Job Development and Posting
.Social Service Referrals
.Referral for Testing and Assessment
.Develop Short-term Classes and Workshops, as needed
.Counseling, including stress management, as needed
Job Placement
Retraining and Education

I. Introduction .

The steel industry in the United States has experienced a traumatic change in recent years. With changing markets and increased penetration by foreign producers, the major domestic producers have all experienced erosion of sales, balance sheets and workforces. In 1978 the number of employees in the steel industry in the United States was 449,000. By 1982 the number had declined to 298,000. That number has continued to decline.

United States Steel Corporation (USS) has been no exception in this downward trend in numbers. The closing of non-competitive facilities has resulted in major force reductions in 1979 and now again in 1984. It is with concern for the lives and families of the employees impacted by the recent plant closings that this proposal is prepared.

United States Steel, hereinafter referred to as Company, and the United Steelworkers of America, hereinafter referred to as the Union, intend to jointly seek JTPA Title III funding and in-kind community and state agency resources in order to be able to provide a full range of services to affected employees.

II. Program Description

The transition assistance program will provide a comprehensive range of services to all USS employees, union-represented and non-union, affected by the current round of shutdowns, if JTPA Title III funds and other resources are available to support such a program. Services will be coordinated through a Dislocated Worker Assistance Center, located at the plant site, governed by a company-union administration committee including a full time staff.

Proposed Program services to be provided are outlined in Program Overview (page 1) and are described below.

A. Workshops

After affected individuals have been identified, contacted and invited to participate, the initial phase of the assistance will be a 16-hour Workshop in which each individual will receive an orientation to the program, direction in self-assessment of his/her strengths and weaknesses, assistance in the development of job search objectives, a plan to reach those objectives and practice in interviewing. The Workshop will be conducted by experienced professionals and will focus on the objective of assisting individuals in making their own decision concerning occupational and/or educational objectives and in establishing their own job search strategy.

In the Workshops, job search clubs or teams will be developed with 12-20 members per team. This team will provide facilitated networking opportunities, as well as motivation and guidance for the individual in conducting the job search. The teams will meet on a weekly basis to share information and report on progress in the job search. It is through these teams that further job search training and assistance can be provided.

B. Dislocated Worker Assistance Center

Prior to completion of the Workshops, individuals will be introduced to the scope of services provided by the Dislocated Worker Assistance Center. These services include:

.Job Search Assistance

—Resume or Data Sheet Preparation and Typing. The Workshops will assist individuals in the developing of a rough draft of a resume. Personnel at the Center will review this draft and counsel individuals in making a finished copy. These will be typed, copied and filed at the Center to assist individuals in continued distribution. Cover letters, if required, will also be prepared and typed at the Center.

—Telephone Service. Telephones will be available at the Center to enable individuals to communicate with potential employers nationwide. The Center will also provide workstation areas from which individuals can base their job search.

.Job Clubs

—The Job Clubs are designed to provide ongoing assistance in the job search effort. They will meet at the Center, with Center personnel assisting in the development and maintenance of the clubs and providing information, materials, and support that will further the clubs' objectives.

.Job Development and Posting

—Personnel at the Center will develop and maintain listings of employment opportunities to which individuals can apply. All opportunities will be posted at the Center for review by all affected employees. Personnel will attempt to develop openings in the local areas, as well as coordinate with Centers at other locations to communicate listings from outside the local area. When possible, companies with multiple openings will be invited to interview interested candidates at the Center. Our experience with job development in our Management Career Continuation Centers has been successful, averaging over 300 current job listings at each Center. Development of job openings for Production and Maintenance, as well as Clerical and Technical employees, should provide similar results.

.Resource Materials

--Critical information and job search material will be maintained at the Center. This will include newspapers throughout the nation, information on educational programs, grants, etc., and state and federal employment possibilities, as well as programs and agencies that can be of assistance, and general information on job search and interviewing techniques.

.Social Services

--The Center will develop and maintain contact with local social service groups and will refer individuals for assistance to the proper agency if the need cannot be handled by Center staff. This will enable the Center to provide counseling and family assistance beyond the expertise level existing at the Center.

--Stress counseling services are considered to be an important part of adjustment assistance and will be made available to USS employees on-site at the Center through workshops and/or individual counseling sessions.

.Referral to Testing and Assessment

--Personnel at the Center will also develop and maintain a relationship with the state employment service, vocational and other educational institutions and other agencies that can provide professional testing and assessment of individuals, which could lead to job placement, or for education and retraining purposes. These services will be made available to employees as needed.

.Coordination of Education, Retraining and OJT Services

--The Center Administrator and Retraining Specialists will coordinate basic education, OJT and occupational retraining services for affected USS employees. Systems will be set up to accomplish the following:

-make information available to all employees about education OJT and retraining oportunities.

-provide financial assistance to employees for approved education and retraining courses. Appropriate policies will be developed by the Program Administration Committee for the disbursement of these funds.

-establish procedures for coordinating education and retraining with other services, such as testing and assessment, job development and job search assistance.

-establish procedures for follow-up job search assistance to individuals after their education/retraining is complete.

-establish procedures for the coordination and referral of OJT positions.

-develop special short-term classes and workshops as needed.

C. Program Management and Coordination

The day-to-day management of the Center and Workshop activities will be the responsibility of the Center Administrator. A Program Administration Committee will be established which will consist of an equal number of representatives of the company and the union. It shall be the responsibility of the Committee to assume that all Program operations reflect a coordinated approach. The Committee shall have co-chairs representing the company and the union (one from each) who will exercise co-equal administrative responsibilities and who will be responsible for providing direction to the Center Administrator.

The Program will maintain a system of recordkeeping with two objectives in mind. The first objective will be to assist with the individual job search of participants. The system will provide for tracing of individuals to assure follow-up and monitoring of each individual's progress and participation. The second objective of the recordkeeping system will be to provide for Program accounting and auditing purposes, as required, with Title III JTPA funds. The system will record all job placements, number of individuals participating in each phase of the Program and all expenditures by appropriate cost category.

D. Duration of Program

The Dislocated Workers Assistance Program will operate for approximately six months, beginning as close as possible to August 15, 1984. A phase-down period of several weeks will precede the final closing of the Center in order to finalize administrative details and make arrangements with local agencies to assist those individuals who have not yet found employment. The actual duration of the Program is dependent on the level of funding received from JTPA Title III, and other available resources.

III. Responsibilities of Center Staff

ADMINISTRATOR: (responsible to Program Administration Committee) Responsibilities include supervising all aspects of Center operations; hiring Center staff; approving all Center contracts and sub-contracts; assuring responsible fiscal management of the Program; setting up a Program management system including a system for worker tracking and referral; coordinating the various elements of the Program, including job search assistance, job development, relocation, and social services; periodically reporting to the Program Administration Committee; working closely with the Administration Committee to identify and coordinate community resources; coordinating and supervising all technical assistance to the project; overseeing efforts to document and evaluate Program results; and providing assistance with the implementation of services.

JOB DEVELOPER/RESOURCE COORDINATOR: Responsibilities include researching existing job development activities occuring in the region; working with the Program Administration Committee to create a comprehensive job development strategy; developing a system for capturing all information related to job opportunities and making the information available to all workers; coordinating all job development efforts with the job search Workshops and Job Clubs; contacting prospective employers and supervising all employer outreach activities; and providing assistance with the implementation of services.

SECRETARY/WORD PROCESSOR: Responsibilities include execution of clerical duties related to Program administration; maintenance of Program filing systems; provision of clerical/support services, i.e. preparation and revision of resumes', cover letters, and job application forms; and provide assistance to all workers.

COUNSELOR RETRAINING SPECIALIST: Responsibilities include obtaining information from the Job Development Coordinator about skill requirements associated with job opportunities; counsel individual workers regarding education and training options; refer workers to formal testing and assessment services as necessary; and assess the effectiveness of various education and training activities; counsel workers in resume' development, cover letters and job application forms.

IV. Grant Recipient

For purposes of service continuity it is proposed that the local Service Delivery Area serve as the grant recipient. United States Steel Corporation will sub-contract with the SDA to provide the services mentioned above.

TRA BENEFITS

	Weekly Cash Benefits (First Payments)	Amount
1981	281,408	1,441,095,846
1982	30,403	103,012,242
1983	30,032	36,528,345
1984	15,821	35,253,244
1985 (through May)	5,982	14,291,703

	Training	Amount
1981	20,386	1,919,158
1982	5,894	18,400,000
1983	29,106	14,129,252
1984	29,275	16,493,575

	Job Search	Amount	Relocation	Amount
1981	1,491	250,513	2011	2,023,230
1982	697	182,438	662	843,889
1983	697	172,050	3291	3,195,457
1984	799	183,500	2222	2,305,270

	Total Amount All Four Services
1981	1,445,288,747
1982	122,438,569
1983	54,025,104
1984	54,235,589

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July 10, 1985

MANPOWER POLICIES AND UNEMPLOYMENT

This report focuses on the various public programs which are designed to provide assistance in readjustment for unemployed workers: unemployment compensation, Trade Adjustment Assistance and the Job Training Partnership Act.

Introduction

Manpower policies are, of course, a vital aspect of a general national economic policy. In the U.S., there has been a general consensus that the application of macro-economic policies were adequate responses to provide steady employment opportunities to a growing work force. Certainly, there is always a dispute as to what is an acceptable level of unemployment below which there might be precipitated a change in stimulating aspects of a national economic policy.

During the last four years, we have been witnessing another type of change--a substantive shift from a Keynesian economic approach to the Reagan "supply-side" national economic policy. Suffice it to say that essential "safety net" ingredients in either policy option are the roles of income maintenance systems and worker retraining programs.

Where either cyclical or structural unemployment occurs, intervention through these safety nets is necessary to provide relief until the recessionary pressures recede or workers have adjusted to other jobs.

According to The New American Unemployment, a report by Northeast-Midwest Institute:

> "The displacement of workers from jobs has occurred periodically. What is 'new' in the last ten years is the scope and complexity of the unemployment caused by dislocation. More people appear to be affected for longer periods of time in an economy increasingly interdependent within the nation and internationally.
>
> "An unsystematic collection of support programs, while adequate to deal with temporary unemployment, now are proving insufficient to cope with prolonged unemployment, recurring recessions, and shifting skill demands. The resulting dislocation threatens not only an individual's financial and psychological

well-being, but also his or her membership in the community and the wider social fabric as well."

However, at a time in which the Reagan Administration engaged in a massive shift in a national economic policy, it also advocated reduction in, and in some cases elimination of the income maintenance programs, particularly the federal aspect of unemployment compensation and the Trade Adjustment Assistance. The retraining programs also underwent substantive revisions.

Scope of the Problem

In order to obtain a perspective with regard to these two categories of "safety-net" programs, it is necessary to define the scope of the unemployment problem.

The unemployed workers are identified under various categories which are descriptive of the reasons or causes of layoff.

Frictional: workers who are moving from one job to another or from one location to another.

Seasonal: workers in industries where weather is a factor (building trades, fishing, recreational, etc.) or workers in industries where production is interrupted for model changes (auto assembly).

Cyclical: layoffs resulting from economic downturns but who expect to return to their jobs.

Structural: originally, the term applied to groups of persons who lacked skills to mesh with current employment (disadvantaged youth) and groups discriminated against (minorities, women, older persons.) This term also identified workers whose jobs were automated (elevator operators, farm laborers). This term is also used to describe unemployed workers whose layoffs occur because their industry has been forced to "restructure"; i.e., consolidate operations or retrench because of massive global changes (oil crisis, foreign imports, expansion of capacity

overseas, etc.). Workers in this last category are gradually being referred to under the definition that follows.

Displaced or Dislocated: Workers with demonstrated job skills and stable attachment to their current employment but whose industries are downsizing because of global market changes. By definition, these workers are not expected to return to comparable employment with other firms in their industries.

The Labor Department's Employment and Training Division recently published the results of a survey of workers laid off during the five year period 1979-1984. Of the 11.5 million surveyed, 43% were judged to be dislocated workers.

Here are some of the findings:

- Job losses stemmed from one of three factors: the closing or moving of a plant or company; slack work; or the abolishing of a position or shift.

- Almost half of the dislocated workers had lost jobs in the manufacturing industry, mainly in durable goods industries, with these subtotals of job losses:

  -220,000 in primary metals;
  -400,000 in machinery (except electrical);
  -350,000 in transportation equipment, of which 225,000 were in auto production.

- Only 60% of the dislocated workers had found new jobs at the end of the survey, and primary metals workers were hardest hit with a mere 45.7% reemployed at the end of the survey.

- The East North Central and Middle Atlantic regions suffered the largest dislocations as would be expected by the concentration of heavy industry there.

- Older workers, women, Blacks and Hispanics had higher rates of dislocation and less success in readjusting.

- Among successful full-time job finders, there was a substantial number (42%) that suffered considerable earning loss.

In a special DOL study "Causes and Remedies for Displacement of Steel Workers", the unique situation facing the unemployed steelworker was described:

> "These characteristics make displaced steel workers very different from typical disadvantaged individuals who were targeted in other training and employment programs. Displaced steel workers are older, more experienced, less female, and come from the mainstream of America. They therefore have many of the important and basic job skills that disadvantaged workers often lack. Displaced steel workers have stable work histories, skills, and work experience. Their basic need is a job, and for steel workers in particular there are two obstacles typically in their way. First the local job market often does not provide the jobs that can use their current skills immediately. Hence, to find a job, a displaced steel worker must give up an occupation he has had for many years, and learn new skills. The industry specific skills gained by many steel workers in the mills are often not directly transferable to other local industries, except for certain craftsmen and general laborers. Secondly, since steelworkers have earned a wage considerably higher than the average for most other industries, they typically have to accept a decrease in their pay."

The current dislocation of workers with proven skills and firm attachment to employment has occurred simultaneously with the longest and deepest recession since World War II. In reality, over the last four years, there

were two recessions: a relatively mild one in the mid-1980's followed by a massive downturn during the last three quarters of 1981 and the entire 1982. The present recovery has leveled off with unemployment still over 7 percent, a rate considered unacceptable a few years ago. It is within this context that we review the two safety net programs.

INCOME MAINTENANCE PROGRAMS

During these last two recessions, there were two public programs designed to assist unemployed workers: Unemployment Insurance (UI) and the Trade Adjustment Assistance (TAA) program.

1. State Unemployment Insurance: UI

The state UI program was initiated in 1935 to serve three purposes:

- to provide temporary compensation for workers and their families;
- the aggregate spending of this compensation serves to offset further recessionary pressures through the aggregate impact that compensation spending would represent;
- maintain a skilled workforce for employers for subsequent recall.

Most states provide 26 weeks of UI benefits for workers who have established enough qualifying weeks of employment.

Most states also require eligible recipients of UI to participate in an active job search and to be "willing, ready and available" to accept a comparable job offering. Thus, as it was originally designed, the state UI system best serves the frictional and seasonal unemployed and those laid off during mild recessions. However, recessionary or cyclical unemployment increased in its duration thereby putting stress on the state UI to meet the demands of workers and their families.

State employment services provided precious little to their structurally unemployed. Attempts to meet the needs

of disadvantaged youth, minorities, women and handicapped workers flowed from Federal measures like the Manpower Development and Training Program (MDTA), the Comprehensive Education and Training Program (CETA), Head Start, Job Corps, Targeted Youth Program, and through legislative and judicial actions prohibiting discriminatory practices in hiring and upgrading employment.

While the problems of the structurally unemployed continue to evade a more systematic approach by the federal government, the Congress was under pressure to respond to the mounting pressure relative to the failure of the UI system to handle extended recessionary unemployment. Two basic initiatives were undertaken: EB and FSC programs.

A. Federal/State Extended Benefit Program: EB

As the duration of recessions lengthened in the mid-fifties and early '60's, the federal government joined with the states to extend weekly UI coverage to a maximum of 39 weeks. This Federal/State Extended Benefit (EB) Program was permanently enacted under the Employment Security Act (PL91-373). In addition to extending coverage to 4.8 million previously ineligible workers, the EB Program provided up to 13 additional weeks of benefits to all eligible workers who had exhausted their state benefits whenever the national Insured Unemployment Rate (IUR) breached 4.5 percent. Individual states triggered onto the EB Program whenever its IUR breached 4% and exceeded by 20% its previous two-year average.

The costs of the EB Program are borne equally through matching funds by states with the federal treasury.

The intent was to provide a more automatic continuation of benefits beyond the 26-week period. Congress did not want to be constantly confronted with requests for emergency extensions of relief. Furthermore, the longer duration of ever higher levels of unemployment remaining after each recessionary episode, convinced Congress that more than 26 weeks of benefits were necessary, provided, however, the duration of the benefits varied according to the levels of unemployment in the states.

B. **Federal Temporary Compensation: TC/FSC**

With the length and the severity of the unemployment expanding even a 39-week program of compensation was not deemed by Congress to be adequate. Therefore, in addition to the EB Program, the federal government has provided temporary compensation at times during the last three recessions:

1. Temporary Compensation was put in place during the 1971-72 recession providing a maximum duration of 52 weeks in states where the unemployment rate exceeded 6.5 percent.

2. Federal Supplemental Benefits, three years later, provided up to 65 weeks during the period January, 1975 through November, 1977.

3. Federal Supplemental Compensation was initiated from September, 1982 through March, 1985 providing a sliding scale maximum duration from 40 weeks in low unemployment states to 65 weeks in states with high levels.

These programs were fully funded by the federal government out of general revenues. They were not financed by a payroll tax.

Another feature of the federal extension programs was that the Congress "reached back" and provided further extended benefits to those who had exhausted all of their previous FSC benefits. However, each time that the issue arose, there developed the question as to whether the longer term unemployed should be compensated through public welfare or unemployment compensation. At a time when the nation was facing 10% unemployment, it seemed reasonable to suggest that such unemployed workers should continue to be compensated under the UI systems. However, when the unemployment levels began to drop, not only did the concept of the federal extension come under attack, but the "reach back" was also challenged.

In other words, the structurally unemployed--those who by definition will take a longer time in order to be reemployed--were not considered to be a responsibility of the UI systems. In the past, when the structurally unemployed were few in numbers, the political or public policy aspect of their plight could be discounted. But presently, with the massive structural changes occurring in the manufacturing sector, vast numbers of workers are

joining the ranks of the displaced or structurally unemployed. The role of income maintenance, coupled with a retraining program, remains a major public policy issue. So far the Congress has rejected a linkage between income maintenance and training. The worker is expected to maintain himself during the training period--despite the fact that he is unemployed.

The FSC, since it provided the assurance of longer duration in income maintenance, did create a more favorable situation for workers who might elect to enter more substantive retraining programs. Of course, some workers might not use the advantage to enroll in such programs. But with the growing awareness that a high percentage of unemployment--at least in the steel mills--is structural, many workers realize that return to the mills is limited and retraining provides them with a distinctive advantage to obtain a higher wage job comparable to the ones lost in the mills.

Thus, while FSC was obviously a response to the longer term duration of cyclical unemployment, it was also an opportunity for dislocated workers. Unfortunately, that aspect of FSC did not receive recognition by Congress--nor the Administration--which moved to terminate the program when the "emergency" levels of unemployment began to decline.

2. Trade Adjustment Assistance (TAA)

TAA was first enacted in 1962 to provide assistance and readjustment for workers who lost employment as a result of changes in national policies regarding protective trade practices. The program was liberalized under the 1974 Trade Act to extend benefits to unemployed workers where imports could be shown to have contributed importantly to their firms' decline in sales or production.

TAA benefits include:

- o weekly cash benefit allowance
- o job search and family relocation allowances
- o training (Of the four benefits provided by TAA, training was never defined as an entitlement and has always had funds appropriated far below the level of need.)

In the early years, 1975-80, the program provided generous weekly cash benefits (70% of a worker's average weekly wage capped at the national average manufacturing wage for up to 52 weeks). Most workers in manufacturing used the cash benefit portion almost exclusively, choosing to continue their relationship with their current employer in the hope that increased production or job openings due to the attrition of older workers would provide an employment opportunity.

In 1981, the TAA program was radically changed. The weekly cash benefits were reduced to the level of a worker's state unemployment compensation rate and these allowances were offset by any and all other weeks of compensation provided by the state and combined state/federal programs.

Faced with the reality that many plants were closing permanently and that the probability of returning to employment in their industry, a significantly higher number of trade impacted workers turned to the readjustment benefits: training and relocation.

WORKER RETRAINING PROGRAMS

1. Job Training Partnership Act (JTPA)

Since the mid 60's the federal government engaged in worker training programs for industrial workers. The original Manpower Development and Training Act (MDTA) was designed to provide an additional tool to the Bureau of Employment Service to assist unemployed workers. However, as the economy began to expand, the training program was directed more toward hard-core unemployed persons who were being by-passed by the economic system, persons many of whom were young, had no work-related histories and little work skills. That program--Comprehensive Employment Training Act (CETA)--was a key part of the antipoverty campaign.

However, CETA was not equipped to handle the special problems of the structurally unemployed worker--the so-called dislocated worker. In a more active economy, focus on such a type of unemployed worker might not be needed. But because of the profound changes affecting major industries resulting in a large number of areas with highly concentrated unemployed workers and because the transformation is continuing, it became more evident that

the training programs had to shift emphasis to focus upon the peculiar problems arising from the joblessness of older skilled workers.

Title III of the Job Training Partnership Act provides training and readjustment benefits for "Dislocated Workers" defined as workers who have three or more years attachment to their current employment and have either been terminated or who have no reasonable expectation of returning to comparable employment in their industries.

Funds are allocated by the Labor Department to the various states based on their relative unemployment.

Governors have complete discretion on their own allocation of funds within their jurisdictions. Within states, each labor market area must establish a Private Industry Council (PIC) with a majority membership composed of employers who determine which skills are in short supply and what training is necessary to meet that demand. Union representation is also mandated for the councils.

Workers in industries undergoing structural changes may be declared dislocated and programs may be authorized to include these specific groups. JTPA represented a substantial shift from the previous federal training programs in that the administration of the programs were decentralized in consonance with the Reagan philosophy to deemphasize the role of the federal government. However, there is merit to the need to make the training program more responsive to the job opportunities of the area--which presumably is the advantage of the PICs.

Our union, under Appendix O of the Basic Steel Agreement, has pursued JTPA grants with basic steel companies where facilities have been terminated. We have received JTPA grants to establish Dislocated Worker Training Centers at each facility permanently closed by U.S.Steel in 1984, and are currently in the process of establishing similar centers in cooperation with other basic steel companies.

2. Trade Readjustment Assistance (TRA)

In addition to the cash income maintenance aspect of TRA, the program also provided funds for financing training

programs. To a certain extent, these funds might be a duplication of the JTPA funds. However, TRA preceded JTPA and represented the only pragmatic funding which was exclusively dedicated to the dislocated worker. Questions have arisen as to whether this separate funding should be terminated or folded into the JTPA program. Duplication of programs is certainly a problem which could be confronted. However, it should be pointed out that the expenditure of these TRA funds was linked to the cash maintenance aspect of the program. Indeed, an additional 26 weeks of benefits up to 78 weeks was available conditioned upon entrance into a training program.

The earlier TRA experience subjected the program to intense Congressional criticism. Cash benefits in many cases were delivered to workers after they had returned to work. Furthermore, very few workers utilized the readjustment or training aspects of the program. According to a DOL study, less than 1% of 403,000 individuals who received benefits between 1975 and 1978 also received the search and relocation allowances. Only 15,000 workers participated in training.

Nevertheless, while the payment of cash benefits should be viewed as compensation for injury received due to import-related layoffs, the readjustment features of TRA were not properly tested at the time. Now, unfortunately, many laid off steelworkers realize that they will not be returning to work. Hence, the readjustment features have greater appropriateness. It would be ironic that, at a time during which there is a strong desire to accept the adjustment features of the TRA program Congress might terminate these benefits.

Furthermore, it should be realized that the extended cash benefits duration of TRA gives a willing worker an opportunity to enter a longer job training program than he might otherwise be unable to accept.

A major defect of the JTPA program is that it does not provide cash benefits. UI payments can, since they are being offered for only 26 weeks, provide an incentive to enter a short-term training program. The longer duration provided by the TRA cash benefits, allows for a more expansive opportunity beyond the 26 weeks (UI period)--up to 78 weeks (TRA period) for training programs.

Legislative Synopsis

1. Unemployment Compensation

Bowing to the problem of the budget deficit and the threat of a Presidential veto, the full House Ways and Means Committee refused to approve any extension of the Federal Supplemental Compensation program beyond the exhaustion of eligibility of those on that program as of April 6th.

In an unusual move, Speaker O'Neill appealed by letter to President Reagan: "Mr. President, where do you stand? Is there any variety of extension that you could support?" The answer from Reagan was swift. In a press conference on the evening he received the letter the President said:

> "There's no need to continue it when we've got a recovery that is creating jobs at a rapid rate...workers who are having problems /should enroll/ in job training programs instead of seeking further government aid."

Originally, there was some anticipation that the Federal Supplementary Compensation could be extended for another 3 to 6 months. H.R. 890 introduced by Congressman Pease would have extended compensation for 18 months. The bill at first received negative reaction. After extensive lobbying and a Washington rally of unemployed workers, the subcommittee did report a bill which provided only 3 months of extension. Even the calling by Congressman Oberstar (D-MN) of a special session of the House Democratic Caucus was necessary in order to push the House leadership into a position of support. However, the full committee with four key Democrats (Rostenkowski (D-IL), Gibbons (D-FL), Pickle (D-TX), and Flippo (D-AL) voting with all the Republicans except one (Shuster-Pa), overrode the subcommittee version and reported a bill which simply allowed those who were currently drawing FSC benefits to continue to receive the maximum weeks of entitlement. Basically, however, the House Ways & Means Committee killed an extension of the program.

The Senate Finance Committee followed the House plan and proposed a phase-out (i.e., discontinuance) of the FSC. Even that unsatisfactory response to the plight of the long-term unemployed was opposed by the President. He did,

however, sign the bill. Prior to final Senate action, two votes were taken on the floor to extend the program for six months. The amendment offered by Senator Specter was for a much longer duration of benefits than even the 3-month plan which had already been killed by the House Ways and Means Committee. Hence, there was little likelihood that such an expansion amendment could have prevailed. A more modest amendment,namely, the 3-month extension plan adopted by the House subcommittee, might have been more realistic. Yet some Senators wanted a pro-unemployment compensation vote regardless of the possibility that the measure might not survive.

Opposition was, of course, generated by the concern over the federal deficit and the threatened veto. Nevertheless, there was a deeper reaction. The plight of the long-term unemployment was not perceived to be one answerable by an extension of unemployment compensation. Indeed, some studies were quoted as indicating that the longer workers receive unemployment compensation, the longer they delay job search. Perhaps, during a period of extensive cyclical unemployment--around a jobless rate of 10%--support could be elicited for longer durations of emergency unemployment compensation. But for the more distinct structurally unemployed workers, there seems to be little sympathy for income maintenance programs. There is a growing awareness that more intensive retraining is necessary for these workers. USWA concurs in the need for training of displaced workers, but feels that a necessary ingredient in such an approach includes an income maintenance system during the training. However, we do not have a special public policy measure for displaced workers.

We are now confronted with a serious situation. With the demise of the FSC program and the ineffectiveness of the EB system (at the current levels of unemployment), the structurally unemployed worker is stripped of benefits after the exhaustion of the UI 26 weeks--except for the import-related unemployed workers. USWA expresses real concern that as our basic industries are engaged in substantial restructuring, the training programs for the structurally unemployed can be seriously compromised.

At present, there is little prospect that Congress will react to the problems of the structurally unemployed. The subcommittee on Employment Compensation sent to the full Ways and Means Committee a Pease bill (H.R. 1072) reforming the Extended Benefit program. If the EB program could be restructured so that income maintenance could be extended

for more than 26 weeks, perhaps the retraining measures could have more meaning. However, the reform bill is dead in the water.

2. Trade Readjustment Assistance (TRA)

The role of TRA in the readaptation of workers because of its twin features of income maintenance and training funds, while limited in its scope to trade-impact workers, is, nevertheless, critical. However, the Administration is determined to conclude the Trade Adjustment Assistance program this year. Rep. Pease (D-OH) began field hearings to reauthorize and improve the program.

We believe the following improvements should be included:

- o providing TAA benefits to component parts and service suppliers;
- o eliminating time barriers and other hurdles which delay or deny the delivery of benefits;
- o providing training to all dislocated workers who request it.

In April, the Department of Labor released a report: "Causes and Remedies for Displacement of Steel Workers." A setaside of $10 million from the nationally reserved funds of JTPA was provided for unemployed basic Steelworkers. Additionally, the Administration set aside $5 million for jobless copper workers. However, some of these workers are entitled to TRA benefits. Future shutdowns, which might be import related, could entitle USWA workers to the services of the USWA Dislocated Workers Program now underway as the result of Appendix O of the collective bargaining contract. If cash benefits are available--and now only through TRA--then they have greater options in utilizing the program.

3. Job Training Partnership Act

Since JTPA is already in place, the main congressional action relates to its funding requests. Under the pressure of the budget deficits, the Administration recommended decreases in 1986 expenditures. The House Budget Committee, (Chaired by Gray (D-PA), restored the funds to the 1985 levels. The budget has not yet been approved by Congress. The appropriation battle will occur later in the year.

The Administration has also requested Congress to rescind JTPA funds held over from past appropriations. While the Congress has refused to grant the recision, the Department's request for 1986 JPTA funding is far below the estimated need. Actually, since the Congress refused to allow the Administration to return unused JTPA funds to the Treasury, the Steelworkers setaside was made possible. Additionally, some $26 million of TRA training funds are also available, Congress also having declined to accept the White House rescision request.

4. Plant Closings

A bill, HR 1616, on Plant Closings has been introduced by Reps. Clay (D-MO), Ford (D-MI) and Conte (R-MA). This measure would require businesses to provide 3 months advance notice before permanently laying off 50 or more employees. In union shops, employers must provide all relevant information and discuss alternatives to the closure. The bill also calls for the establishment of a National Commission on Plant Closings and Worker Dislocation to study and report legislative recommendations concerning plant closings.

This year's legislative version is a far cry from previous bills which were introduced and which provided a vast array of readjustment benefits in addition to measures of intervention which were designed to forestall shutdown. However, H.R. 1616, aside from the advance notice, merely requests that a study be undertaken to determine what might be feasible policy measures which could be instituted in the case of shutdown. The commission study approach is similar to one undertaken to handle the crisis with the Social Security system. However, even this mild version has received opposition from industry forces.

The bill has been reported out of subcommittee and is now pending before the full House Labor and Education Committee. Currently, there are 104 co-sponsors but only six (6) Republicans: (Conte (MA), Schneider (CT), Boehlert (NY), Horton (NY), and Smith (NJ). Additionally, Secretary of Labor Brock has established a Task Force on Economic Adjustment and Worker Dislocation. The scope of the task force's assignment is comprehensive. However, the legislation is still needed because of the advance notice on shutdowns and requirement to consult on alternatives.

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This Newsletter is intended to provide information about the network of programs which has been designed to assist workers during periods of temporary layoff and to help dislocated workers' readjustment process leading to meaningful new employment.

The Administration's strategy is to claim that each program taken singularly is unnecessary because other programs are in place. Therefore, we must be prepared to convince Congress that all of the components are necessary.

We will advise you as specific bills begin to move through the legislative process.

STATEMENT BY RICK McHUGH, ASSOCIATE GENERAL COUNSEL, UNITED AUTO WORKERS, WASHINGTON, DC

Mr. McHUGH. Mr. Chairman, I, too, have a longer statement which I would like you to read.

Senator DANFORTH. You don't have to ask for permission, because—and I say this to all the witnesses who are here today—we do hope that you will observe the time limitation, and your statements will be included automatically in the record as though given in full.

Mr. McHUGH. Thank you.

The UAW strongly supports the extension and the improvement of the Trade Adjustment Assistance Program. These programs are an essential part of the development of any comprehensive trade policy.

The TAA Program has represented and should in the future represent a special covenant between the victims of trade policies and the Government that makes and administers those trade policies.

I would like to just focus my comments specifically on two features of S. 1544, which are troubling to us.

First of all, the requirement that someone accept training in order to be eligible for the cash assistance seems rather ill advised. This would be a tremendous shift in the focus of the program. Many hundreds of thousands of people have been certified under the program; many fewer thousands have ever found training under the program.

The problem with the training, in our view, has not been with workers' unwillingness to accept training, but with funding snafus between the Department of Labor not releasing the funds promptly enough, not providing sufficient administrative funds to the States to administer the Training Assistance Programs, and States' unwillingness or unfamiliarity with the programs which has led them not to perhaps promote those programs as well as they should have.

In the past, the UAW has supported the use of vouchers for training in the trade adjustment assistance area as an option; however, the bill as written would require vouchers as the sole financing mechanism for training under TAA. We believe that some training requires $4,000 and some training doesn't require $4,000; just as, in the two areas that we are troubled about, it seems that we are legislating a uniform approach. We are assuming that everyone who is laid off because of imports needs training and that that training is available. I don't think those assumptions are true in many areas where we have had experience with the program.

Similarly, with the voucher, we are in an area where we assume that there is a uniform amount of money that will be sufficient for every training, and we don't think that is true, either.

We do support the import fee as a method of financing trade adjustment. This seems fair, that the problem that is causing the loss of jobs should also be a source of funding.

We also support the lengthening of the time limits which are in the present law, which have produced a lot of inequities for many of our members who have been certified but haven't been able to either take the training or receive the cash assistance that they

were eligible for because of the different time limits which are too restrictive at this moment.

Mr. Chairman, in the auto industry we have a situation which is similar to that in other industries also, where people who make the component parts of automobiles and who are laid off because of the imports of foreign automobiles are not eligible for trade adjustment assistance as it is currently written. We would urge the subcommittee to favorably consider an expansion of the coverage of TAA to cover these clearly identifiable victims of imports. It doesn't seem very fair and equitable for someone who has clearly lost their job due to imports to be excluded because of the limitation on the definition of "trade impacted."

We think this is a very important bill for our membership. We are glad to see this interest from the subcommittee, and we look forward to positive action in the near future.

Thank you.

[Mr. McHugh's written testimony follows:]

STATEMENT OF THE INTERNATIONAL UNION, UNITED AUTOMOBILE, AEROSPACE AND AGRICULTURAL IMPLEMENT WORKERS OF AMERICA

Mr. Chairman and Members of the Subcommittee, my name is Rick McHugh, Associate General Counsel of the UAW. We are delighted to be here today and to have the opportunity to testify before this Subcommittee on the important subject of the Trade Adjustment Assistance (TAA) program for workers.

The UAW represents more than one million workers and their families. We strongly support the extension of the Trade Adjustment Assistance program authorized as part of the Trade Act of 1974. As this Subcommittee knows well, the TAA program will expire on September 30, 1985, unless Congress acts to extend it. We believe strongly that the Congress should do so, and we urge this Subcommittee to approve legislation without delay to continue and improve the TAA program.

TAA REPRESENTS A SPECIAL COVENANT BETWEEN THE VICTIMS OF U.S. TRADE POLICY AND THEIR GOVERNMENT

Mr. Chairman, the TAA program represents a special covenant between the victims of trade policies and their government, which has made and administers those policies. The program has been an integral part of U.S. trade policy for more than 20 years. TAA is the only federal program specifically designed to help workers who lose their jobs due to imports. It should be reauthorized and receive sufficient budget authority to make this covenant a reality. In addition, we urge an expansion of coverage to include component parts workers and others who are clearly identifiable victims of trade policy.

Congress has recognized that unemployed victims of trade policies are different from other unemployed persons because their status is directly attributable to government trade policies. Congress has stated the rationale for providing targeted benefits to the victims of federal trade programs:

The program is premised upon the belief that trade-related unemployment and market disruption may differ somewhat in nature from that arising from other causes, and upon the belief that such trade-related imports, resulting from a federal policy of encouraging increased foreign trade for the benefit of the country should not be borne unaided by particular segments of U.S. industry and labor.[1]

More recently, the President's Commission on Industrial Competitiveness, whose 30 members included leaders of industry and labor, discussed the problem of workers displaced by structural changes in the nation's basic manufacturing industries. The Commission concluded that "Workers who are displaced as a result of these changes should not be required to bear the entire burden of events that are ultimately beneficial to society at large." [2]

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[1] Staff Data Materials relating to TAA Program prepared for use of Subcommittee on International Trade, Staff of Senate Committee on Finance (96th Congress, 1st Session, 1979).

[2] Report of the President's Commission on Industrial Competitiveness (February 1985).

For more than 20 years,Congress has promised American workers that federal programs for expanding trade would occur in conjunction with a system of assistance for workers displaced by these trade policies. We hope Congress will not renege on that understanding now. It would be unjust to tell the victims of so-called free trade policies that instead of assistance in the future, they will receive an unfulfilled promise.

S. 1544 IS A POSITIVE STEP TOWARD REAUTHORIZATION OF THE TAA PROGRAM

Mr. Chairman, the UAW was encouraged by the recent introduction of S. 1544, the proposed Trade Adjustment Assistance Reform and Extension Act of 1985. As Senator Roth stated in introducing the bill, the United States economy is currently experiencing a "trade shock" similar to the energy shock of the early 1970s. If our country is to have an effective trade policy, we believe Congress must exercise leadership. S. 1544 could be part of a comprehensive trade policy.

The funding of TAA through an import fee would be fair and reasonable. In the last few years, the program has suffered from the failure to release funds appropriated by the Congress in a timely manner. The UAW supports the proposal in S. 1544 to place the import fees in a trust fund to be used solely for financing the TAA programs. With such a funding mechanism, Congress could be certain that TAA would be adequately funded.

In addition, the UAW supports the proposed longer time periods within which a certified worker may draw trade readjustment allowances to complete training programs. Current time limits are often too restrictive for many workers to draw readjustment allowances or complete suitable training programs. This situation results in certified workers losing the assistance they need and deserve.

While the UAW supports these features of S. 1544, there are two provisions of S. 1544 which, in our opinion, are ill-advised.

The UAW opposes the provision to require a certified worker to enroll in or complete a training program in order to be eligible for readjustment assistance cash benefits. At first blush, this provision may appear to have merit, but our experience with the program does not bear this out.

First of all, not every worker laid off due to imports needs training. But all need cash benefits to assist them and their families if unemployment benefits are exhausted before they find new jobs. Second, suitable training has not been available in all areas for all certified workers in the past. Instead of requiring all certified workers to accept or complete training to qualify for cash assistance, the UAW would support a requirement that all apply for training. The type and extent of training should depend upon individual needs.

The UAW is opposed to financing TAA training solely through vouchers as S. 1544 proposes. In some cases, where different training options may be available, vouchers could be an appropriate option. But as a uniform approach, vouchers do not add flexibility; instead, they tend to limit all workers to the same level of training. It must be recognized that not all unemployed workers need the same extent and type of training. S. 1544 would encourage all workers to take training regardless of need and then would fix that training at the same level. Four thousand dollars may not be enough to finance some training programs, but too much for others.

In summary, we believe the use of import fees placed in a trust fund would help to put TAA on a reliable funding basis. Requiring an application for training as a condition for receiving trade readjustment assistance would be acceptable, but we oppose requiring all certified workers to use limited training resources in order to get cash assistance. Optional use of training vouchers may add some flexibility, but we believe financing training exclusively through vouchers would be imprudently inflexible.

THE NEED FOR THE TAA PROGRAM CONTINUES TO GROW

Members of this Subcomittee are well aware that the ballooning trade deficit is a serious threat to the nation's economy. The loss of jobs due to imports has a devastating effect on workers, their families, and the affected firms and communities.

The Department of Labor conducted an extensive survey of 5.1 million workers displaced from their jobs between January 1979 and January 1984. The survey showed a compelling need for reauthorization of TAA. Two and one-half million workers were displaced by plant closings or relocations during this period. Nearly half of the displaced workers came from the manufacturing sector of the economy, including nearly 225,000 in the automobile industry alone. One-fourth of all displaced workers—or 1.3 million persons—were still unemployed and looking for work. Another 15 percent of displaced workers have dropped out of the labor force

altogether. Half of those who have found work have been unable to reach previous earnings levels.[3]

Recently, the UAW and Boston College completed a comprehensive study of laid off auto workers in Michigan. The study found that more than 40 percent of these workers used up all their savings while they were out of work. The average layoff lasted 66 weeks. Only 28 percent were able to pursue training while on layoff, and the study found that "more financial assistance could have helped many more of the laid off to take training." There is no question that more financial assistance and a longer duration of assistance are necessary to provide meaningful training opportunities for displaced auto and other workers. For this reason, stringent time limits in the current law should be lengthened.

The U.S. automotive trade deficit has reached $34 billion, and it continues to grow. Auto industry employment remains 23 percent below 1978 levels. Profits are up, but employment is down. In addition, imports of auto component parts have increased greatly, creating more unemployment. These displaced workers need assistance; TAA is part of the answer.

Industrial workers were dealt an additional blow in March 1985 when the voluntary restraint agreement (VRA) on auto imports from Japan was allowed to lapse by the President. Japanese auto imports had been limited to 1.85 million vehicles for the last year of VRA. The need for TAA is even greater now that imports are going to increase substantially. Thousands of U.S. workers in auto and auto-related industries are in danger of losing their jobs because of increased imports.

We estimated that imported Japanese cars in this country could increase by an additional one million units over the next three years. That would cost 200,000 jobs at a time when the Reagan Administration is making every effort to terminate TAA. We hope Congress will recognize a responsibility to help meet the growing need to assist employers and workers in finding alternative ways to support themselves and their families.

DEPARTMENT OF LABOR'S ADMINISTRATION OF TAA DEMONSTRATES NEED FOR CLOSER CONGRESSIONAL OVERSIGHT IN THE RENEWED TAA PROGRAM

Despite growing unemployment and increased imports, the Department of Labor's administration of TAA has reflected hostility on the part of the Reagan Administration to the program. The Department has certified dramatically lower numbers of workers. Table I illustrates the drastic reduction of workers certified as meeting the standard of imports "contributing importantly" to their employment. In 1984, a year of record imports, less than 30,000 workers were certified for TAA.

The Department's attitude, combined with constraints adopted in 1981, also has greatly reduced the numbers of certified workers who are able to benefit from TAA. In fiscal year 1984, only 6,823 certified workers received training under TAA, while 2,222 received relocation assistance and 799 got job search assistance. In our judgment, these figures are convincing testimony of the inadequacies of TAA administration by the Department of Labor in the last few years. They point out the need for Congress to exercise more careful oversight to insure that the intent of TAA is fully reflected in administration of the program.

THE COVERAGE OF THE CURRENT TAA PROGRAM IS OVERLY LIMITED

In addition to reauthorizing TAA and providing adequate funding, we urge Congress to address longstanding shortcomings of the TAA program. Workers whose livelihoods are threatened by governmental policies which have a destructive impact on domestic industry need a fighting chance to continue as contributing members of society.

For years, the UAW and other supporters of TAA have advocated coverage of component parts workers. The operation of the current system is not equitable.

Workers laid off at Champion Spark Plug due to imports of foreign automobiles, for example, were understandably angry and confused when their TAA certification was denied while workers at GM-owned AC Spark Plug were certified. Workers at independent parts companies supplying auto manufacturers should not be treated differently simply because their end product might be auto parts instead of finished automobiles. Thousands of employees in the independent parts and suppliers industry are going to lose their jobs in the next few years as a result of the Administration's decision to permit increased Japanese auto imports. Under the current TAA

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[3] Bureau of Labor Statistics, Monthly Labor Review, June 1985, pages 3-16.

certification standard, these workers have no chance of obtaining assistance under the program.

If such clearly identifiable victims of U.S. trade policies are denied TAA, there is no question that we have failed to provide equal treatment for component parts workers. The UAW strongly urges Congress to assure that component parts workers who are displaced because of imports receive TAA coverage to the same extent as workers displaced from jobs where they are employed making finished products.

In addition, workers whose jobs are lost when their employers move overseas should also be covered by TAA. Their unemployment, as a result of the overseas move, frequently is directly related to trade policies. Finally, in keeping with the expressed purposes of the Act, Congress should provide a full 52 weeks in which a certified worker can take and complete training. There are many valuable training programs that cannot be finished under the current limitations on TAA training assistance.

We believe there is a major structural problem with state administration of the training program. The state employment services administer the worker adjustment assistance pursuant to agreements with the Department of Labor. The states submit periodic budget requests for TAA funds to the DOL. Unless the states receive what they consider to be adequate administration support in their requests, TAA training is too often neglected.

With these important and needed modifications, the TAA program can fulfill the promise made to workers more than 20 years ago. TAA must be reauthorized and it should be improved. With the proper emphasis on relocation and readjustment through improved training and job search, the TAA program can become highly effective in helping workers who have been displaced because of imports to help themselves.

THE JOBS TRAINING AND PARTNERSHIP ACT (JTPA) IS NOT A VIABLE ALTERNATIVE TO TAA

The Administration's budget views Title III of the Jobs Training and Partnership Act (JTPA) as an alternative to TAA. In our judgment, the JTPA dislocated worker program has serious inadequacies.

First, the program simply does not serve enough of those in need. There are hundreds of thousands of dislocated workers across the country, but only about 80,000 workers will be reached in the current JTPA year. Studies of JTPA have been hampered by the Department's hands-off approach, which makes definite conclusions about JTPA difficult. But early studies of JTPA indicate that in general only the most qualified and easiest to place workers have been receiving the most immediate JTPA attention.

The UAW's experience with that program indicates that JTPA emphasizes short term training and placement in low paying jobs. For example, information collected in Michigan under the JTPA older workers' program shows that workers placed in employment in the Detroit area had an average wage of only $4.95 an hour.[4] The programs do not teach life-long skills, and earnings of graduates of JTPA programs are not enough to put the average family over the poverty line.

Furthermore, because of restrictions on stipends and allowances, many workers are prevented from participating in the JTPA programs because they lack resources to support themselves while in training. In contrast to the short-term measures of JTPA, the more extensive training assistance to TAA permits real skill development necessary to qualify workers for jobs providing decent standards of living.

CONCLUSION

Workers displaced by imports justifiably look to their government for assistance because their unemployment is a direct result of the government's policies. Without a viable TAA program, we can only suggest that the mounting displeasure among workers about U.S. trade policies will grow even more rapidly. In light of the trade crisis, we urge Congress to act quickly to reauthorize and strengthen the TAA program.

Mr. Chairman, we have appreciated the opportunity to testify before your Subcommittee. The program you are considering is critically-important to workers and the families of workers in import-impacted industries. TAA is needed by those work-

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[4] Michigan Department of Labor, Bureau of Employment and Training, "Service Delivery Area Average Wage at Placement Performance Standard (July 1, 1984 to March 31, 1985) (April 22, 1985).

ers and their families; we hope the Congress will respond by reauthorizing the program. Thank you for the opportunity to share the views of the UAW with you.

TABLE I.—TRENDS IN TRADE ADJUSTMENT ASSISTANCE 1975 TO 1984

Year	Percent petitions granted	Number of certified workers	Trade deficit (millions of dollars)
1975	50	54,267	+3,741.3
1976	45	142,790	−14,762.6
1977	38	140,092	−36,409.9
1978	40	147,499	−39,562.7
1979	38	205,560	−37,207.5
1980	28	573,245	−32,254.9
1981	8	27,991	−39,675.2
1982	18	15,212	−42,691.4
1983	29	40,916	−69,392.4
1984	50	12,785	−123,311.6

Source: Department of Labor, Office of Trade Adjustment Assistance; Bureau of the Census.

Senator DANFORTH. Thank you very much.

If you had your wish with respect to trade adjustment assistance, would it be a program which concentrates on retraining workers, or would it be simply an extension of unemployment compensation?

Mr. TRIVELLI. I think the unions represented here and the AFL-CIO recognize the importance of training. I think it is a combination of the two, though. As Mr. Sheehan said, it is important in many cases that the worker be supplied with unemployment compensation or training adjustment compensation so they can afford training to change careers. If we shorten the time period and merely say, "You can have the training," but don't go along with cash assistance so that they can have the adjustment period to learn a new career, then we are not helping the workers, and they are forced into dead-end jobs rather than career-changing jobs.

Mr. SHEINKMAN. I would like to make another comment, Mr. Chairman. If you take a 55-year-old worker in the shoe industry or the textile/apparel industry with little or no education, who if he happens to be covered by a pension as he would be in a vested benefit, those people, while they may want to be retrained, will find it very difficult, and those people's opportunity to get another job is going to be much more restricted.

I think you have to balance it. There are occasions where people may want to be retrained and there is nothing to retrain them for, where there are no training institutions in place.

As you know, now, in most States or many States, at least where the members of my industry are involved, and where people are working, don't have structures in place to train people. So, in effect, you are saying to these people there is nothing to tide them over beyond the 26 weeks. We have already eliminated the 13-week extension to 39; and for these people, it may be a form of some humane assistance. If they are available and ready to do something and there is nothing in place, we don't think they should be penalized.

Senator DANFORTH. Well, let me say this: I am all for trade adjustment assistance and always have been. I think the idea of re-

training is a terrific concept. We are always going to have a problem under present budgetary circumstances as to how big the program can be and how we are going to pay for it. That is the reason for the consideration of some sort of import charge, which I guess raises GATT problems. But the problem is how to design a program that does some real good for people yet doesn't pour the top off the budget or cause GATT problems. That is all very difficult.

I have to say that the problem that you have noted is exactly the problem that I would note. If you take a thriving community, where all kinds of employment opportunities exist, and all you have to do is train people to fit the jobs, that is one set of circumstances. That is a wonderful set of circumstances for most employees: One way or another, they will find the skills to fit the available jobs, I think. But what happens in a small community, or a community, for that matter, that is in bad shape?

Let's take the smaller community. What happens in the situation of a rural area? There are so many of them in the Midwest now, where the farmers are going broke, and some of them have jobs or have bad jobs in smaller towns. If the shoe factory shuts down or the textile garment factory shuts down and there is nothing else, what are these people to be retrained for? What is a 55-year-old person to be retrained for who has never done anything other than make shoes and has never lived any place other than Henry County, MO?

Mr. SHEEHAN. Well, you know, Mr. Chairman, I think you have asked the ultimate question. One might consider unemployment compensation, even for a whole year, to be meaningless if there is no job at the end of the road. So also retraining might be of no use, even for a whole year, if there is no job at the end of the road.

However, we keep saying one program is not a substitute for the other. Certainly, whatever we do in the area of unemployment compensation, extension thereof, and the extension of the TRA Program, unless you have a manpower policy in the country, unless you have an aggressive, growing economy, we are all in the soup.

Senator DANFORTH. I am going to interrupt you at that point, because we are getting fairly far along into the five-bell warning on the second vote that is now on the floor. Senator Roth left a few minutes ago, and he should be back pretty quickly. I am sure he will have some questions.

Let me thank you very much for being here, and the committee will be in recess for a few minutes, but please don't go far.

[Whereupon, at 2:47 p.m., the hearing was recessed.]

Senator ROTH. The subcommittee will please be in order.

The chairman has asked that I proceed with the hearing in his absence. Unfortunately, because of the votes this afternoon, I am afraid we are going to have to continue this game of musical chairs.

I regret that Senator Danforth isn't here, because I publicly wanted to thank him and congratulate him for holding these hearings so promptly. I happen to be of the school that time is of the essence, and that we want to move very, very quickly because we all face the deadline of September 30 when the current law will expire.

I might say, Mr. Sheehan, that you are exactly right; I feel like I've been around this racetrack before. Not only this administration, but the last administration was also interested in terminating this program, and it was at the last minute in this very room that I was able to resurrect it. I think trade adjustment is important for many reasons. The most important, of course, is to help the workers themselves, the ones who are impacted by trade policy and trade.

I am very happy to say that my bill has strong bipartisan support. As a matter of fact, we have about 11 cosponsors on this very committee, which is a majority, and I think this underscores the importance of this bill. I want to publicly thank others who have joined and helped me in this effort—Senator Moynihan, who is the principal Democratic sponsor; I was very pleased to have Mr. Baucus of Montana join us today; on the other side we have had some strong leadership in this area from people like John Chafee, John Heinz, and Steve Symms.

So we do have strong, broad, bipartisan support for this approach.

I am very pleased to know that the administration has this legislation under reconsideration, and I was indeed encouraged and pleased by the letter from an old friend and former member of this committee, Bill Brock.

[Letters submitted by Senator Roth for the record follow:]

U.S. DEPARTMENT OF LABOR,
SECRETARY OF LABOR,
Washington, DC, September 17, 1985.

Hon. JOHN DANFORTH,
Chairman, Subcommittee on International Trade, U.S. Senate, Washington, DC.

DEAR JACK: An effective worker adjustment plan is a goal of this Administration. Our ability to respond successfully and promptly to worker adjustment needs is currently receiving careful review.

To this end, the President has asked me to convene and chair a Cabinet Working Group on Adjustment. This group has been charged with examining how existing programs can be made more responsive to dislocated workers and considering policy options for longer term structural changes.

I look forward to working with you and Members of your Subcommittee, as well as the full Senate Finance and Ways and Means Committees in crafting a successful plan. I believe our joint efforts can produce an effective legislative proposal.

Very truly yours,

WILLIAM E. BROCK.

U.S. DEPARTMENT OF COMMERCE,
THE INSPECTOR GENERAL,
Washington, DC, August 26, 1985.

Hon. WILLIAM V. ROTH, JR.,
U.S. Senate, Washington, DC.

DEAR SENATOR ROTH: I was delighted to hear of your proposal to revamp the trade adjustment assistance (TAA) program, as spelled out in S. 1544.

Our reviews continue to find significant waste in this program; too often, we also find fraud in TAA loans and loan guaranties. We recently issued a management audit report on the overall TAA program which concluded, after extensive examination, that less than four percent of the firms assisted "got well" as a result of Commerce aid. I am enclosing a copy of the report for your information.

In several of my semiannual reports to the Congress, I have noted the high vulnerability of the TAA program to fraud, waste and abuse, and recommended its termination. The unfortunate truth is that the same import and market factors which generate the need for trade adjustment assistance undercut the efficacy of that as-

sistance after it has been rendered. S. 1544 takes a long step toward correcting the least cost/beneficial aspects of the program.

We shall continue our audits of individual grants, loans and loan guaranties, and our work with the two agencies involved—Economic Development Administration and International Trade Administration—to improve the management of their TAA loan portfolios.

If you have any questions about our findings, please do not hesitate to call me.

Sincerely,

SHERMAN M. FUNK,
Inspector General.

Senator ROTH. I think the bill we have before us is a good one—not perfect in all respects, nor is it going to please everybody in its last detail; but essentially, I think it does what we want to do, continue the trade adjustment assistance program.

This is important not only from the standpoint of our workers, but I think it is also critically important in developing sound trade policy for the future. I agree with the AFL-CIO when they say that trade adjustment assistance is no substitute for strong trade policy, but I think it has to be an important part of our trade policy, and for that reason I am very pleased that we are moving ahead.

I have a long statement, a brilliant statement, that should be read, like you gentlemen have; but in the interests of time, since there is nobody here to object, we will just see that it is incorporated as if fully read.

But as I point out, gentlemen, in this statement, we are continuing trade adjustment and I think introducing, as one of you rightfully said, a very novel, innovative process of having a voucher as a means of providing workers' training. And let me say to those of you who expressed some concern that that training might not be available, that is not the intent of the author; the intent of the author is to make certain that there is that kind of trading which is going to help our people. That is the whole purpose of the legislation, to be of assistance to those who are adversely impacted by trade. And I don't intend to see the lack of proper programs become an obstacle.

I do want to make sure that there aren't those on the outside who see a chance for a fast buck and try to develop inadequate programs, because I am interested in these people getting the kind of assistance that will help them to move on to other meaningful work.

I also think that we have answered one of the principal objections to this legislation, which is the cost, by introducing—which I did well over 1 year ago, the first time—the concept of a small fee being imposed on imports to pay the cost. This is an idea that I got some time ago when I went to Hong Kong and saw they were using the same approach to promote their exports.

It seems to me only fair and equitable to let those who are benefiting from trade help those who are suffering. So, we have provided this rather novel means of financing trade adjustment, which I don't think will be a great burden on trade generally, but will provide us with the wherewithal to help those who we very strongly feel are in need of this assistance.

I think this legislation is timely, not only from the standpoint of the expiration of the current legislation but, frankly, workers in almost every industry are currently being impacted, and it is to

those people that we want to be compassionate and provide a system to help them as they make the adjustments in the future.

I want to express my appreciation to you, gentlemen, not only for appearing here today, but I know that my office has been in frequent contact with you in trying to work out the kind of program that we all can strongly support. And I thank you for your testimony today.

I think Senator Bradley might have some remarks he would like to make.

Senator BRADLEY. Thank you very much, Mr. Chairman, for your leadership on this issue, and your interest, and I also would like to thank the panel. I do have some questions.

I would like, if I could, to talk a little bit about why I think this whole effort is important. I think the bottom line on the issue of the trade deficit is that workers dislocated by imports need to find new work. It is as simple as that. If we have a problem of global competitiveness, it boils down to the ability of individuals to get jobs. Our immediate and most direct responsibility in trade policy is to help dislocated workers move into new jobs and careers with a minimum of pain.

We can't wish away the problem of dislocated workers, because there will always be change in international markets and in industrial competitiveness. We cannot legislate away the problem of dislocated workers without cutting ourselves off from world progress, because there will always be new competitors with new ideas or lower costs taking aim at the U.S. market. Economic change will always outrun legislation, no matter what the prevailing ideology or temper of Congress.

The only way to address the immediate problem of dislocated workers is to ease career changes with measures that are in keeping with the dignity and the needs of people who have often been in the workforce for as long as 20 years, and who have built a solid foundation of general skills. And I think that is what this committee is attempting to do.

I think we have made a good faith effort, put out two or three bills. There are some differences among the bills. And I welcome the testimony of the witnesses today, because I think they have a very large say in shaping what this legislation will ultimately become, and that is especially justifiable because they represent in many cases those workers who will be hardest hit.

Now, I would like if I could, to ask a series of questions to each witness and get responses—some of the responses are embodied in your testimony—on the general question of eligibility.

So often we have said, "OK, those people who are eligible are those who have lost their jobs in the industry that has been specifically hit by imports," but as we know, and as we have seen in the last several years, there are many supplier industries that are also directly affected by import competition.

So, point No. 1, do you believe that trade adjustment assistance should be made available to not only the specific industry adversely affected but also those supplier industries?

Mr. Trivelli, and just go on down the panel.

Mr. TRIVELLI. Absolutely, Senator. As I think most of us indicated in our written statements, that is a very important concept. It is

not Industry A and it ends there; it is the suppliers to Industry A of services and parts, and we believe that any Trade Adjustment Assistance Program has to include those other industries as well.

Mr. SHEEHAN. I might just quickly add to that, Senator, that even in the current act the idea of a component part is recognized; but you end up with the legal fiction that if the component parts supplier is a division of the company itself, then that worker will get trade impacted. But if the worker is in a separate corporation or a separate firm he does not.

Case in point: If steelworkers in the rolling mill—let's say plates or sheet—are impacted by trade, they get the TRA. But those that make the steel at the hot end also are eligible under this act. However, if that furnace operation was a separate company they would not. The reference in your bill folds in those workers who are outside the corporate chain. So the concept of covering component parts workers is already part of current law. But it is not expansive enough.

Senator BRADLEY. Mr. Sheinkman.

Mr. SHEINKMAN. It is not much different in the textile industry. As the apparel industry suffers from imports and people go out of business, those who supply it are not necessarily integrated companies. Most of the people in the textile industry and apparel industry are separate corporations and don't make their own mill products that go into the making of the product. And therefore, it would have direct applicability.

What is happening now, as our apparel plants are closing, and they are closing very rapidly, in the last 6 months the textile suppliers are going out of business.

Senator BRADLEY. Mr. McHugh.

Mr. MCHUGH. This has been one of the UAW's legislative priorities in the Trade Adjustment Assistance Program for a number of years. Certainly, the same thing happens in the auto industry: independent parts companies that make components of automobiles have consistently been denied certifications, while someone that works, for lack of a better term, for a captive company, makes headlights. If they make headlights and they work for General Motors they can be covered, but if they sell to General Motors they can't be covered. It is not fair, it is not equitable, and it should be changed.

Senator BRADLEY. A second question: What about those workers who are in an industry where the handwriting is on the wall but they haven't yet been declared an industry adversely affected by imports? Would you support extending eligibility to those industries that are on the brink, not quite there but whose workers can opt to take this option if they so choose?

So often we end up cleaning up after disruptive change, as opposed to anticipating it.

Mr. Sheehan, then why don't we just go right down?

Mr. SHEEHAN. Well, first of all, under the current act workers who are threatened with a dislocation are eligible to file for relief. However, the relief is not forthcoming until the actual dislocation occurs.

Now, I would assume from your question, Senator, that you may be envisioning the fact that the worker, while he is still employed

by the company or in some kind of employment capacity still connected with the company, could undergo training programs inside the company so that, when the plant shuts down, he is ready to hop into another operation. Of course, I think those kinds of programs are in place in Europe and in the social programs of a number of our competition so that a worker who will be dislocated is trained within the company for a job outside. However, under our law we cannot do that; although you can file for a benefit, you get the TRA benefit after the severance occurs.

Senator BRADLEY. Mr. Trivelli.

Mr. TRIVELLI. Yes, I think we absolutely agree that if the handwriting is on the wall, and the industry is in decline, it is important to train the workers. The assistance is there because they need the time to train, and if you can start the training earlier so there is no dislocation and there is no time between one job and the next, that would be preferable.

Mr. SHEEHAN. I would like to deal with the problem practically. The chairman opened up the meeting with a letter from the Secretary of Labor about his desire to work with this committee on this pending legislation. I think it is very interesting to note that where we have had shutdowns, and I am not talking about impending shutdowns, 80 percent of our petition—and I am not making this a partisan issue, because this is a bipartisan bill—80 percent of our petitions were acted upon favorably during the Carter administration; 80 percent of our petitions for plants already closed, let alone those facing closing, were denied.

So I think the issue basically is, how is the act going to be administered? I would favor, obviously, what you are advocating; but if the administration of the act is to cut down benefits and petitions, then it doesn't matter to me one way or another, on a practical basis.

Senator BRADLEY. I am going to get to that aspect of the program next.

Mr. McHugh.

Mr. MCHUGH. Well, to some extent the UAW has attempted to address this through collective bargaining with some of our larger employers, but we were not able to achieve that with smaller employers who don't have the money to finance training for people who are still employed. We certainly wouldn't have any objection to that if it is a possibility.

Senator BRADLEY. Next question: Do you believe that the number of recipients of trade adjustment assistance currently reflects the number of dislocated workers in the country? I think Mr. Sheinkman's response was, clearly, absolutely not.

Mr. SHEINKMAN. Obviously not. I don't know whether it was the chairman or Senator Roth who mentioned that funds have been cut down. I assume that is why one of the proposals is to phase this in over a period of time and to put some sort of tariff on it on a percentage basis that would provide the funding. If the funding is not there—and up until now, to my knowledge, the administration has opposed this kind of legislation. So obviously they have not come to the Congress and asked for additional funds. So I can tell you that of 350,000 textile and apparel workers who have been displaced in the last 4 years, I can't give you the numbers or statistics

but we can get that for you of how many have actually received that assistance. And I venture to say that it would be a much smaller percentage than those who actually would have been entitled to it.

You have criteria. It depends on how the administrators decide to apply that criteria. And if they want to emasculate your bill, no matter how well-intentioned it is, they will emasculate it. And that is the fact of life we have to deal with.

Senator BRADLEY. Mr. Sheehan?

Mr. SHEEHAN. With regard to your question, Senator, you may want to take a little closer look at the current law. We did not testify to that issue today, but in order to be declared "impact-dislocated" you have to meet the criteria of imports rising, unemployment rising, and sales and production decreasing.

Now, we have had shutdowns and layoffs, for instance, in the steel mills. We hit a low bottom during the recession. But during this last period sales are increasing. We are not getting a hell of a lot of an increase in employment in the steel mills. Imports are beginning to decline. But these advantages are compared to a very low base period. We miss, therefore, on two criteria under the act. We may still have dislocated workers. We are still going to have laid off steelworkers, but under the criteria of the act we cannot be certified.

Now, if you would like to take a look at that, we would certainly welcome that.

Senator DANFORTH. Gentlemen, thank you very much.

Senator BRADLEY. Mr. Chairman, could I ask one more question of the group, just one quick one?

Senator DANFORTH. One quick one.

Senator BRADLEY. Just a quick answer. I think Mr. Sheinkman covered this in his testimony, but I would just like to hear the others, yes or no.

The question is whether someone who is going to get unemployment compensation, extended unemployment compensation, should have to be enrolled in a worker retraining program before he or she can receive that compensation. It presents a real problem for the kind of town that Senator Danforth was talking about early on, which is the one-company town. My question to you is, would you think it more reasonable that they be eligible for unemployment compensation regardless of whether they at that moment have entered a retraining program?

Mr. TRIVELLI. Absolutely. The Federation believes that flexibility is what is important here. There are instances where there are no suitable training programs, where it may not be suitable for that elderly worker to go into training programs, and where the training program may not be available in the community at this point. To have the worker suffer for the lack of training programs and the economic situation in his community is inequitable. We just believe that flexibility is important in that area.

Mr. SHEEHAN. Two quick comments.

One, it would not be our interpretation of this proposed bill that a person, who receives TRA certification, and begins to draw his State unemployment compensation, that he would be obliged at that time, in order to continue his UI, to make a commitment to

training. We are talking about a situation 26 weeks later as to whether at that point if he is to draw his cash maintenance he should be tied into a training program.

In all our testimony we say two things about that, Senator: One, that you ought to expand the definition of what you mean by training, and we point to the Job Training and Participation Act as indicating a very wide gamut of employment related service programs, so that if you are going to obligate him, then you are going to allow him to be involved in a wide series of operations.

Many workers really don't need training in terms of job skills, which I think is the inference advanced by many in this field. The assumption is that if vou are displaced you are obsolete in your skills. It may not quite be that; you many be obsolete in how you go out seeking a job. Those are aspects which should be included in the commitment if you want to tie workers.

Our second comment in this area is, you ought to give us a little more swing time. Under the current TRA Act, you can't get the last 26 weeks of compensation unless you are in a training program. There is a provided 26-week period for making that determination. This bill moves that decisionmaking forward another 26 weeks. We are thinking that you ought to move it forward with a little more flexibility taking into consideration the lack of a training opportunity and with an expanded definition of training.

Senator DANFORTH. Gentlemen, thank you very much for your testimony.

Next we have a panel consisting of Robert McNeill, executive vice president, Emergency Committee for American Trade; Ms. Frances Shaine, chairman and chief executive officer, SPM Manufacturing Corp., and a member of the board of directors of the Chamber of Commerce of the United States; and Mr. Daniel Fennell, director of policy, planning and development, Council for Labor and Industry.

Again, unless the witnesses have another order in mind, let us proceed in the order in which your names are on the witness list.

Mr. McNeill, would you go first, please?

STATEMENT BY ROBERT L. McNEILL, EXECUTIVE VICE PRESIDENT, EMERGENCY COMMITTEE FOR AMERICAN TRADE, WASHINGTON, DC

Mr. MCNEILL. Mr. Chairman, thanks for the opportunity to present the views of ECAT on legislation that would extend and reform the Trade Adjustment Assistance Program, which is scheduled to expire at the end of this month.

As an association of chief executive officers of 60 large U.S. multinational firms with annual worldwide sales of about $700 billion and over 5 million workers, ECAT has long recognized the need for and been supportive of appropriate human resource policies designed to assist American workers who are adversely affected by shifting international market forces.

We strongly support the recommended improvements in the TAA Program proposed in S. 1544. We commend its sponsors for their effort to direct the TAA Program toward a dual emphasis of income support as well as worker retraining.

Limiting adjustment assistance for firms to technical assistance also appears to us to be a wise step. Technical assistance for a small firm or a medium-sized firm could provide the difference between staying in business or not.

The funding of a revised TAA Program through a special duty on all imports, as suggested in the legislation, appears to be an attractive option and one certainly worthy of joint exploration with our trading partners.

We agree with the hope of the sponsors that the funding proposal might prove attractive to other members of the GATT who are experiencing serious adjustment problems. Should this prove to be the case, then a new GATT rule presumably could be negotiated, authorizing the imposition of a special Customs levy to be used by GATT members to finance Trade Adjustment Assistance Programs. Should the negotiation of such a rule not be attainable, then we in ECAT would oppose this special and innovative method of trade adjustment financing.

While we recognize the budget constraints on the TAA Program, we believe it is so important that we hope the appropriate sources of funding can be found.

While today we are just commenting on the need for a revitalized Trade Adjustment Assistance Program, we believe that a revamped Trade Adjustment Assistance Program eventually must become part of a comprehensive retraining program with uniform benefits for workers displaced by imports.

Senator DANFORTH. Mr. McNeill, let me interrupt you. I apologize for interrupting, but again we are late into a vote. Senator Roth is going to be here, I think, in another minute or two. So if you could withhold until he arrives, I would appreciate it.

Thank you.

[Whereupon, at 3:16 p.m., the hearing was recessed.]

Senator ROTH. Please be in order.

Mr. McNeill, welcome. It is nice to see you again. I understand that you have begun your testimony, but I failed in my preliminary remarks to include a letter I had from the IG of the Department of Commerce, in which he wrote: "In several of my semiannual reports to the Congress I have noted the high vulnerability of the TAA Program to fraud, waste, and abuse and recommended its termination." Then he goes on, "S. 1544 takes a long step toward correcting these cost beneficial aspects of the program."

So please include that letter as part of the record immediately following my statement.

Mr. McNeill, please proceed.

Mr. MCNEILL. Senator Roth, I had just very briefly indicated ECAT's support of your legislation, with the only real question mark that we have having to do with the special import fee, which we hope is negotiable and that our trading partners in the GATT would find a useful device for their structural adjustment programs as well.

I did indicate, however, that were we unsuccessful in that negotiation, that we would have a real problem with the innovative proposal since it would put us in violation of our binding commitments in the GATT and create a problem for U.S. trade policy.

I was concluding by saying that we in ECAT would hope that the Trade Adjustment Assistance Program eventually could become part of a larger program, more comprehensive in its nature. We have a number of companies, not a large number but a few, who feel rather strongly that adjustment programs should be initiated regardless of the cause, and they therefore are somewhat opposed to singling out import impact as a reason. But that is a small minority of our membership, and we are very supportive of the program.

Senator, we hope that you will find some way between now and the end of the month, together with your colleagues in both Chambers, to extend the present program for such period of time until we can fold the kind of program that you have in mind into a revitalized TAA.

Thank you, sir.

Senator ROTH. Thank you.

Ms. Shaine, do you want to proceed next?

[Mr. McNeill's written testimony follows:]

STATEMENT OF ROBERT L. MCNEILL, EXECUTIVE VICE CHAIRMAN, EMERGENCY COMMITTEE FOR AMERICAN TRADE

SUMMARY

1. The 60 members of the Emergency Committee for American Trade view trade adjustment assistance programs as a key element in broadening public support for the maintenance of the long-standing U.S. advocacy of an open international trading system.

2. ECAT supports the recommended improvements in the Trade Adjustment Assistance (TAA) program proposed in S. 1544, particularly the redirection of the program toward a dual emphasis on income support and worker retraining.

3. Although not consistent with our present commitments on the binding of tariff rates under the GATT, the funding of a revised TAA program through a special duty on all imports, as proposed in S. 1459 and S. 1544, is worthy of joint exploration with our trading partners. In the meantime, other funding options for a revitalized TAA program should be explored.

4. At such time as appropriate sources of funding can be found, the revamped TAA program must become part of a comprehensive retraining program with uniform benefits for workers displaced by imports or by any other relevant cause.

5. Should S. 1544 not be enacted in time to extend the present TAA program beyond the end of its scheduled expiration date at the end of this month, ECAT hopes that expeditious congressional action will be taken to so extend the program.

Mr. Chairman, thank you for the opportunity to present the views of the Emergency Committee for American Trade (ECAT) on legislation that would extend and reform the Trade Adjustment Assistance (TAA) program, which is scheduled to expire on September 30, 1985.

As an association of chief executive officers of 60 large U.S. multinational firms with annual sales of about $700 billion and over 5 million workers, ECAT has long recognized the need for and been supportive of appropriate human resource policies designed to assist American workers who are adversely affected by shifting international market forces.

Over the years, ECAT has supported trade adjustment assistance programs as a key element in broadening public support for the maintenance of the long-standing U.S. advocacy of an open international trading system. More importantly, we believe that the effects on jobs and industries of shifting international market forces are frequently beyond the capacity of individuals and industries to adjust to without specific governmental assistance.

Trade adjustment assistance programs properly designed should assist the shift of workers into new occupations through providing the training for new and employable job skills. In this manner, an effective trade adjustment assistance program can promote U.S. productivity and competitiveness.

STRENGTHENING THE TAA PROGRAM

ECAT strongly supports the recommended improvements in the TAA program proposed by S. 1544. We commend sponsors for their effort to direct the TAA program toward a dual emphasis on income support and worker retraining. We believe the requirement that a worker agree to retraining in order to receive a trade readjustment allowance to be sound policy. This requirement will facilitate the rapid reentry of workers into productive jobs.

Further, providing workers with vouchers to exchange for retraining under public or private programs should lead to the development of a healthy competition between the public and private sectors in the designing and running of retraining programs. Incentives for the private sector to institute job training programs are to be desired.

Limiting adjustment assistance for firms to technical assistance also appears sound to us. In the case of medium- and small-size firms, technical assistance may provide the essential assist toward economic recovery.

FUNDING THE TAA PROGRAM

The funding of a revised TAA program through a special duty on all imports, as suggested in S. 1459 and S. 1544 appears to be an attractive option and one certainly worthy of joint exploration with our trading partners. As the bills' sponsors are well aware, such a duty is not consistent with our present commitments on the binding of tariff rates under the GATT. We would in effect be raising U.S. tariffs to higher levels than the bound rates, thereby guaranteeing other countries the right to retaliate against an equivalent value of U.S. exports, or, alternatively, to receive compensation.

We agree with the hope of the bills' sponsors that the funding proposal might prove attractive to other members of the General Agreement on Tariffs and Trade who are experiencing as serious, if not more serious, problems of structural adjustment than is the United States. Should this prove to be the case, then a new GATT rule presumably could be negotiated authorizing the imposition of a special customs levy to be used by GATT members to finance trade adjustment programs.

Should the negotiation of such a rule not be attainable, then we in ECAT would oppose this special and innovative method of trade adjustment financing.

In the meantime, other funding options for a revitalized TAA program should be explored. Included might be the suggestion of Fred Bergsten and his colleagues at the Institute for International Economics that customs revenues collected from either the auctioning of import quotas or the raising of tariffs pursuant to our domestic import-relief statutes be earmarked for financing adjustment assistance programs for the respective affected industries and workers.

Another option to be considered would be the setting aside of a portion of currently collected customs revenues for the financing of TAA programs.

While we recognize the budget constraints on the TAA program, we believe the program so important that we hope the appropriate sources of funding can be found. While the cost of the program may appear high, the cost to our society and economy could well be greater if we do not develop an effective program to enable trade-displaced workers to re-enter the jobs market and become once again productive, tax-paying citizens.

CONCLUSION

While ECAT testimony today has focused on the need for a revitalized TAA program such as is outlined in S.1544, we believe that a revamped TAA program eventually must become part of a comprehensive retraining program with uniform benefits for workers displaced by imports or by any other relevant cause. Quite simply, ECAT companies recognize that human resource investments appear to be one of the best investments in competitiveness that America can make.

In concluding, I would express the hope that if S.1544 is not legislated, that expeditious Congressional action might be taken to extend the Trade Adjustment Assistance program beyond its scheduled expiration date at the end of the month. That would offer necessary time for further exploring the innovative funding proposal in S.1459 and S.1544, plus other proposals such as Fred Bergsten's.

STATEMENT BY FRANCES SHAINE, CHAIRMAN AND CHIEF EXECUTIVE OFFICER, SPM MANUFACTURING CORP., HOLYOKE, MA, AND MEMBER, BOARD OF DIRECTORS, CHAMBER OF COMMERCE OF THE UNITED STATES, WASHINGTON, DC

Ms. SHAINE. Thank you, Senator, and thank you fellow members of the committee for permitting us to testify.

I am Frances Shaine. I am chairman of SPM Manufacturing Corp. in Holyoke, MA. I am a director of the Chamber of Commerce of the United States, and I am chairman of the Chairman's Council of Small Business.

To place my testimony in context, I should tell you that my company is a participant in the domestic photo album industry antidumping petition filed in January of this year against photo album manufacturers in Korea and Hong Kong. My company is also an applicant for trade adjustment assistance. We are fortunate in our anti-dumping petition to have the support and encouragement of a number of Senators, among whom are Senators Gore and Kerry, both of whom have cosponsored S. 1544. Today, I am appearing on behalf of the U.S. Chamber.

The Chamber of Commerce congratulates the Senators who have introduced and cosponsored the Trade Adjustment Assistance Reform and Extension Act of 1985, S. 1544.

On June 26, Chamber board chairman Frank Morsani testified before the House Banking Committee on the growing clamor for protectionism. On September 5, Chairman Morsani wrote the President urging that the administration use existing authority to "take whatever actions are necessary to restore fairness in the international marketplace," including the use of section 301 and other provisions of law "to compel corrective trade liberalizing actions by our trading partners." I ask that a copy of Frank Morsani's June testimony and September letter be included in the record.

Senator ROTH. It is so ordered.

Ms. SHAINE. Thank you.

[Mr. Morsani's testimony and letter follow:]

STATEMENT
on
THE GROWING CLAMOR FOR PROTECTIONISM
before the
SUBCOMMITTEE ON ECONOMIC STABILIZATION
of the
HOUSE COMMITTEE ON BANKING, FINANCE AND URBAN AFFAIRS
for the
CHAMBER OF COMMERCE OF THE UNITED STATES
by
Frank L. Morsani
June 26, 1985

Mr. Chairman, members of the Subcommittee, I am Frank L. Morsani, Chairman of the Board, Chamber of Commerce of the United States of America. I am also President of Precision Enterprises in Tampa, Florida.

Introduction

We congratulate the Chairman and members of this Subcommittee for convening this hearing. We are well aware of the frustration that you feel concerning increased U.S. trade deficits and unfair foreign trade practices. The growing clamor for protectionism, as you have so aptly characterized it, continues to rise with every passing month, despite passage of major trade legislation last fall. Left unchecked, protectionist tensions threaten to undermine and possibly destroy the multilateral trading system that has served to promote world trade and economic growth since World War II.

A number of factors have contributed to the rise of protectionism. Uneven economic growth worldwide, high unemployment in some areas, volatile exchange rates, and government market intervention, as well as unavoidable structural changes in the world economy, have all fueled dissatisfaction with the current system. But by closing our markets to foreign competition, we would bring about results all of us should fear. If those who call for restrictions, here and abroad, retain the offensive and obtain the market-closing policies they seek, we will risk a worldwide collapse of trade that could be worse than the Great Depression of the 1930's. If this should occur, the overall health of our relationships with other nations stands to

deteriorate. All segments of the American public, including the Administration and Congress, as well as business, labor and academia, must recognize this and begin to grapple with this challenge.

The domestic U.S. economy is increasingly integrated with the world economy. The percentage of the U.S. economy accounted for by exports and imports has doubled over the last twenty years. It is now over 20% of our Gross National Product. Greater interdependence is obvious in trade, finance, investment and technology.

In short, our trade interests are inseparable from not only our domestic interests but also our diplomatic, strategic and military interests abroad. Disruption in any one of these areas threatens stability and progress in all of them.

Numerous examples abound: for example, President Reagan's announcement of his intention to embargo trade with Nicaragua not only raised new questions about the renewed use of trade as a weapon but also brought into focus a new disagreement between us and our allies on U.S.-Central American policy, a major foreign policy issue.

Against the backdrop of continuing record U.S. budget deficits, the U.S. and its allies find themselves unable to agree on the purpose of international monetary talks or even to set a date for multilateral trade negotiations.

And, as we all know, the 1974 OPEC oil embargo and resultant price increases and dislocations made the average American realize, perhaps for the first time, that we can not ignore the world economy. Even today, petroleum imports account for 25% of our trade deficit. We are as dependent on "them" as "they" are on "us."

As we meet the trade challenge, we must not forget that.

America's Challenge

U.S. international economic performance is at a crossroads. The $123 billion merchandise trade deficit for 1984 has brought into clear focus a potentially dangerous situation that has been developing for some time. Since World War II, with the advent of U.S. world trade leadership, we have viewed ourselves as second to none. Left largely unscathed at home by the ravages of WWII, America's leadership in world affairs seemed unchallengeable. We assumed leadership in drafting the multilateral trade order known as the General Agreement on Tariffs and Trade (GATT) which took effect in 1948. The seven major rounds of trade negotiations under GATT auspices are principally responsible for the widespread and substantial reductions in tariffs worldwide.

The United States has also played a leading role in global finance and development affairs. In 1944, at Bretton Woods, New Hampshire, a U.S.-led conference of forty-four nations agreed to establish two international institutions for the purpose of promoting a stable, peacetime global economic environment. The International Bank for Reconstruction and Development (also known as the World Bank) was established for the purpose of making long-term reconstruction and development loans. With over 140 member nations, it is the world's largest single aid donor, as well as the largest borrower in the international bond market. Its development mission, made possible by the Marshall Plan, has reached around the world. The International Monetary Fund (IMF) is charged with the provision of short-term assistance (loans) to countries with balance-of-payments problems. Through its efforts to promote international monetary cooperation and stability, the IMF seeks to facilitate the expansion of trade and, in turn, increase world employment and economic growth.

Both institutions, while not without problems, clearly represent the best intentions and leadership abilities of the United States. As leaders, in business and in government, we must to continue this traditon. We must ensure that the substance of our leadership truly reflects the aspirations of humanity--freedom, opportunity, peace, and prosperity.

However, our leadership is under challenge as never before. The continuing evolution of the world economy and the dislocation it is causing are leading many Americans to question the very foundations of the world economy and the trading system which we have helped to shape. The advantages we enjoyed relative to other nations when the GATT system was formed have all but disappeared as other nations have developed. In many cases, rules which were intended to help them when they needed help now provide them with significant advantages. More often than in many years, Americans are viewing the world trade and financial system as a threat to their well-being, rather than an opportunity. They see the U.S. trade deficit reaching record levels. They see the shift in emphasis from manufacturing to services and high-technology but have doubts about its future. They see developing countries attempting to cope with their indebtedness but view the IMF as an agent of big-bank bailouts.

The observation that the U.S. is rapidly becoming the world's largest debtor nation frightens many Americans. Massive international capital flows in the direction of the U.S. have helped to finance the U.S. budget deficit and other credit needs. It is important to note that while annual inflows of foreign savings have remained relatively stable since 1981, net U.S. capital outflows have fallen significantly. In other words, a major factor underlying overall capital inflows into the U.S. is the decline in U.S. capital leaving the U.S., and not a major increase in foreign savings in the U.S. Nonetheless, there is concern among many that someday, under as yet unforeseeable circumstances, overall capital flows may reverse direction, out of the U.S., greatly increasing the cost and difficulty of financing U.S. credit and investment needs.

In short, the world trade and financial system suffers a crisis in confidence where confidence may matter most--here in the United States. And we have yet to formulate a policy to restore this confidence.

Protectionist Trends

These concerns are not new. We have seen them before. The Smoot-Hawley tariff of 1930 started as a relief measure for agricultural products. Yet, it became the most protectionist legislation in American history. Numerous amendments were adopted, and tariffs were raised to record levels. Much of the world retaliated, and all of us paid with a longer and deeper Great Depression.

International financial institutions are not free from controversy and criticism either. Two years ago, Congress narrowly averted serious problems when it agreed to pass IMF quota increase legislation. That legislation substantially increased confidence in the IMF to address what many regarded as the worst international financial crisis since the 1930's. Passage of this legislation was not without rough sailing, however. Many Americans expressed understandable but misplaced fears that the quota increase would be abused to cover past bank management failings. In response to these fears, new constraints to check such abuses were adopted.

We can cite numerous examples of departures from free trade. Nations around the world engage in elaborate trade-distorting practices. Japan's use of countless, complex non-tariff barriers is legendary, accounting for an estimated $10 billion of their trade surplus with the United States. The Europeans' use of agricultural export subsidies poses a major problem for the farm sector and, as much as anything else, undermines our efforts to achieve

harmonious trade relations with the European Economic Community. The less developed countries and the newly industrialized countries find themselves forced to subsidize their manufactured and raw material exports in order to obtain foreign exchange and service their debt. At the same time, their domestic political situation makes it difficult for them to provide market access anything like our own.

In the United States, the last recession served to increase resentment of foreign imports enjoying substantial market share while Americans were being laid off. The increasing importance of the service and "high-tech" sectors relative to manufacturing and stronger foreign competition in both areas have highlighted the importance of adjustment, as well as the clamor for protectionism that results.

And perhaps most important of all, the wild fluctuations in exchange rates, including a substantial appreciation of the dollar in the last five years against major currencies, have posed important challenges for U.S. industry. Many U.S. exporters and import-competing companies correctly blame the strong dollar for a major decline in their ability to compete. In addition, the instability of exchange rates, regardless of the actual ratio, introduces new uncertainty and risk into business decision making. This brings higher costs, inflationary pressure and greater market concentration.

Trade Policy from the 1930's to the Present

Beginning with the enactment of the 1934 Trade Agreements Act, the U.S. government has commendably taken a number of steps which recognized the folly of protectionism and worked to open the trading system. Pursuant to the spirit and letter of GATT, Presidential flexibility to reduce trade barriers and negotiate trade agreements under GATT was enhanced. Under the Trade Act of 1974, less developed countries (LDCs) were granted duty-free access to the U.S. market under the terms of the Generalized System of Preferences. The Tokyo Round of trade negotiations achieved agreement on several non-tariff issues. Congressional passage of the 1979

Trade Agreements Act served to implement these agreements. At the same time, Congress did what it could to make sure that unfair practices, such as dumping and subsidies, remained subject to sanctions. A process of relief from injurious imports, as well as from a potentially wide range of unfair foreign trade practices, was included in Sections 201 and 301 of the 1974 Trade Act.

In 1984, the last significant trade legislation, the Trade and Tariff Act, was enacted. The managers of this legislation, in particular including my own Congressman, Sam Gibbons, should be commended for their efforts to maintain and strengthen the trading system. Renewal of GSP is vitally important to the maintenance of mutually beneficial trade between the U.S. and less developed countries. Equally important, the so-called reciprocity provisions in Title III provide important new tools for the President to negotiate for greater U.S. trade and investment access to foreign markets. However, the 1984 Act is at least as notable for what is not in it as for what is in it.

Current Problems

While the 1984 Act represents a tentative victory for open trade forces, the strong continuing dissatisfaction with U.S. trade performance has led to the introduction of numerous trade proposals in the 99th Congress. Some of these proposals closely resemble provisions seriously considered but set aside by the 98th Congress as it debated the 1984 Act.

I do not doubt that Congress will soon place trade issues at the top of its legislative agenda. Anyone who even glances at a newspaper or watches TV can see that trade is a major issue. The consequences of Congressional action will be important and may be far-reaching. Therefore, it is imperative that all who are involved in trade policy distinguish fact from fiction when identifying issues and considering responses.

For example, Americans increasingly single out Japan as the principal, if not the sole, villain against

whom we must prevail in the world market. Japan's $37 billion trade surplus with the United States, it is said, is principally the result of countless trade-distorting practices developed through government-industry collusion. Regardless of their actual impact, these practices are unbefitting a highly developed nation. Unless Japan quickly eliminates these practices, they may find access to the U.S market denied or sharply restricted.

There is no question that Japan's markets are effectively closed to many foreign enterprises. We recognize that culture and tradition (e.g., "keiretsu") play an important role in determining strong Japanese preferences for domestically produced goods. However, Japan must take meaningful action now to open up its markets to a degree comparable to the access we provide to U.S. markets. This includes sales of goods and sevices, as well as investment. Failure to take these steps now will only worsen the political climate between our countries. Left unattended, the deterioration of relations between our countries will soon reach the point of no return. Once that happens, both sides will likely enter a downward spiral of retaliation, recrimination and stagnation in which everyone loses.

We Share Responsiblity

Nonetheless, we should not overstate the significance of Japanese trade barriers or their relationship to the trade deficit, irritating though these may be. The fact of the matter is that the major portion of the so-called "Japan problem" is made right here in the U.S.A. If Japan were to eliminate all of its trade distorting practices overnight, optimists estimate that our bilateral trade deficit would be reduced by about $10 billion--less than one-third of the total. The unpleasant truth is that, regardless of questionable Japanese trade practices, the U.S. business community needs to improve its performance in many ways. Let me make some observations about the relative state of Japanese and U.S. industry:

— Japanese manufacturing productivity has risen almost three times faster than that of America since 1970.

— The Japanese savings rate is much higher than the U.S. rate. The excess of Japanese savings over domestic investment is "exported" to other countries, keeping the yen's value down without deliberate currency manipulation. The result is greater price-competitiveness of Japanese exports.

— The Japanese capital stock has been growing over twice as fast as the American since 1970. As a result, Japanese equipment is much newer than American equipment.

— The large increase in the Japanese share of the world market for cars, trucks and ships reflects both cost and quality advantages.

These are important differences which must be narrowed in America. We cannot rightfully expect Japan, or any other nation, not to compete effectively in the marketplace, even though we may insist that they play by the rules. The choice here is largely ours.

It is also worth observing that, on a per capita basis, Japan is not the worst trade offender, if merely sustaining a trade surplus can be called an offense. While Japan, with a population of 120 million, had a $37 billion trade surplus with the U.S. last year, Canada, with only 25 million people, had a $20.6 billion surplus. In other words, on a per capita basis, Canada's merchandise trade surplus with the U.S. was three times as large as Japan's in 1984. And yet, while we talk about punishing Japan with new trade restrictions, we are contemplating free trade areas with Canada. This is simply not fair.

Some believe that the trade deficit or the strong dollar is "deindustrializing" America. The data do not support this. It is

true that some firms and industries, such as basic steel and mill products, have declined over the last several years. But other sectors, such as communications equipment and electronic components, have grown impressively. Since 1980, growth in overall U.S. industrial production, at 12 percent, topped that of each of the seven major industrial countries except Japan. Indeed, production in Italy and France, with their weak currencies, actually fell since 1980 while it increased only 2 percent in Britain.

This is not to say that some otherwise highly competitive firms have not suffered over the past few years as a consequence of the sharp appreciation of the dollar. They most certainly have. What we are saying is that in the aggregate, thanks in large part to domestic, growth-oriented tax, budget and regulatory policies, U.S. industrial production has substantially improved, both in absolute terms and relative to most of our major trading partners.

The same point can be made about overall U.S. economic performance. The evidence is clear that, among the seven major industrial countries, those with low-tax/low-spend policies are out performing high-tax/high-spend countries in both employment and output. The solution to what is described as the dollar problem and foreign stagnation lies in a greater convergence of U.S. and foreign economic policies. Specifically, this means foreign emulation of demonstrably successful U.S. economic policies--tax and spending cuts, deregulation and disciplined, non-inflationary monetary policy. In addition, Congress must weigh carefully the ramifications of proposed major changes in the Internal Revenue Code as they affect worldwide savings and investment. Tax simplification proposals, such as "Treasury II," represent the most significant revisions of the tax code in at least a generation. We must remember, again, that our actions in this regard will have repercussions extending well beyond our borders. We urge Congress to keep this in mind as it pursues its deliberations.

While fiscal and monetary policies are important determinants of U.S. international competitiveness, those calling for protection believe that

closing off or restricting world trade provides jobs and stimulates growth by insulating industries from an inherently "unfair" and unforgiving market. But history clearly shows us that "insulation" leads to industrial stagnation, wasted resources, fewer jobs and lower living standards. Sluggish growth and increased unemployment in the U.S. and around the world are the inevitable results.

Recommendations

The best trade policy for promoting growth and jobs is one that recognizes our growing interdependence as an opportunity. Such a policy will favor expansion and liberalization of the trading system, not restriction. We must maintain efforts to lower trade barriers abroad and resist pressures to close our own markets. The prospect of severe damage to the trading system resulting from protectionist initiatives makes it even more timely for the Chamber to reaffirm its support for actions that result in trade liberalization worldwide. Our recommendations include the following:

- Effective enforcement of U.S. laws in defense of our trade rights under international rules can help ameliorate growing pressure for counterproductive trade-restrictive measures.

- The Chamber reaffirms its opposition to protectionist measures, such as import surcharges, quotas, domestic content laws and restrictive trade laws in conflict with our international obligations.

- The Chamber supports Presidential use of tools provided in Title III of the Trade and Tariff Act of 1984 in order to obtain increased market access abroad. Restrictive trade barriers in other nations deny U.S. exporters, investors and service firms a fair opportunity to compete. It is difficult for the United States to retain its status as a relatively open market accessible to other nations when

equivalent access is not enjoyed by U.S. companies overseas. This is particularly pertinent in the case of advanced developing countries that enjoy duty-free access to the U.S. market provided under GSP but continue to maintain trade-distorting practices and restrictions in their own countries. GSP is important to world trade and it should be continued. But it must not be abused.

- The Chamber also supports new and dedicated multilateral efforts to reduce barriers and to restore and improve discipline and stability in the world trading system. Priorities should include (but not necessarily be limited to) strengthening the disciplines of the international trading system; further reductions of tariff and non-tariff barriers; improvement of the performance of GATT machinery and secretariat; adaptation to the growing concerns surrounding services, investment and intellectual property rights; the linkage of trade and monetary matters; further integration of LDCs into the world trading system; maximizing public support for improvement of present trade rules and institutions; and Congressional renewal of Presidential negotiating authority.

Congress has before it several restrictive proposals aimed specifically at Japan. The prospect of a serious conflict between the world's two most important trading nations deeply concerns the Chamber. We believe that sustained growth and development of commerce in the Pacific basin represent one of humanity's best hopes for the next century. This region, with its rapidly growing, dynamic market-oriented economies, gives every indication that it will assume world economic leadership for the forseeable future. A healthy, vibrant U.S.-Japan relationship in trade and, indeed, in all matters is critical to the success of the region and the world economy.

We recognize that numerous unresolved differences exist between the United States and Japan. Trying to resolve these differences may on occasion cause the U.S. government to take unilateral action which will prod our Japanese friends to be more forthcoming in their efforts to reach agreement.

However, Congress and the Administration must carefully define the problems to be solved, as well as the manner in which they are to be solved. The Chamber's positions in this regard are the following:

- o The Chamber opposes legislation that mandates the President to take retaliatory action against any country. The Chief Executive's flexibility as embodied in existing law must be retained. Denial of such flexibility will make targeting responses to specific developments far more difficult, thereby reducing the chances of obtaining the market access or other outcomes we seek.

- o The Chamber does believe that on a case-by-case basis the Administration should exert greater leverage, using existing mechanisms of multilateral and bilateral negotiations and agreements. These include Article XXIII of the GATT, the "nullification or impairment" clause. If these efforts fail, then the U.S. should exercise its rights under domestic and international trade laws and consider major changes in existing domestic and international arrangements governing trade.

Let me take this opportunity to tell you about an emerging trade issue on which the U.S. Chamber is taking a leadership role: access to the rapidly growing worldwide telecommunications market. The opportunity to compete fully and fairly in foreign markets is a fundamental objective of the American business community. Nowhere is this more important than in the emerging worldwide high technology markets, particularly those associated with what some call the global information economy, which spans a range of products and services connected with the generating, processing and distribution of information. Computer hardware and software, micro-electronics, and telecommunications technologies are all vital to the operation of the global information economy. Furthermore, rapid technological change is increasingly blurring the demarcation among these segments.

Unfortunately, we must recognize that a key to this global information economy, the national telecommunications markets, remains among

the most highly regulated areas of business activity. Because these telecommunications networks must serve as the central transportation system for the global information economy, progress towards greater competitive opportunities in telecommunications is critical to the future growth of trade in high technology products and services. Recognizing this fact, the U.S. Chamber is working closely with members of Congress to help shape constructive legislation that would encourage the negotiation of greater access for U.S. firms to worldwide telecommunications markets. In the absence of such negotiation, the U.S. business community may well be denied the opportunity to compete in this dynamic part of the world economy.

I think it is important to note at this point that the current administration has demonstrated a clear willingness to exercise leverage, including the use of substantial import restrictive measures, in order to secure cooperation from our trading partners on the question of trade liberalization. For example, the Administration took a dramatic step in this fashion last fall when it banned most European steel pipe and tube imports until the end of 1984 in reaction to perceived non-compliance with steel pipe and tube import agreements.

This administration has taken some restrictive measures of a substantial nature even when it is less clear that the purpose of such measures is to promote negotiation or clarification of an agreement. In April of 1983, President Reagan approved a 45 percent increase in duties on imported motorcycles. The President has taken a number of actions to reduce textile and apparel imports, the most recent major action being the U.S. Customs Service's promulgation of the revised "country-of-origin" rules as they related to "substantial transformation" of textile and apparel products in different countries.

The steel quota system currently in effect is even stricter than the Multifiber Arrangement (MFA) on textile and apparel imports. Unlike the MFA, the steel quota system sets a worldwide ceiling for imports. It includes Europe, not just Japan and developing countries. Imports are prohibited from

growing more rapidly than the domestic market. Perhaps most significantly, the steel industry can dismantle the system by filing unfair trade practice cases.

The point here is that, if and when Congress begins to debate trade legislation, it should recognize that this administration has clearly been willing and able to use its existing authority to impose trade restrictions in order to cushion a variety of industries from foreign competition. In our view, the record simply does not support the contention that the Administration has been unwilling to use the tools currently at its disposal to remedy injurious or unfair trade practices.

Chamber International Programs

The U.S. Chamber is uniquely situated to work toward increased market access worldwide. Through an extensive network of 53 affiliated American Chambers of Commerce abroad, representing some 60,000 firms and individuals, American business diplomats are engaged in breaking down barriers to U.S. trade, investment and services every day. AmCham presidents, committee chairmen and other American residents abroad meet face-to-face with host country government and business policy makers. Perhaps the most notable current example of such involvement is that of the president of the American Chamber of Commerce in Japan. He and his AmCham colleagues have been at the forefront in advising every U.S. government negotiating team to visit Tokyo over the last year. He has gained such credibility that he was appointed as one of the two foreign business representatives on the new Advisory Committee to the Japanese Ministerial Committee charged with implementing the pledges contained in Prime Minister Nakasone's April 9 statement.

In addition, the Chamber sponsors 14 bilateral business councils bringing some 700 U.S. corporate executives together with their counterparts from key trading areas around the world. For example, just a few weeks ago, together with our India-U.S. Business Council, we held an off-the-record

discussion for 40 senior corporate executives with Prime Minister Gandhi of India. This meeting, along with other similar sessions we have held with some 20 heads of state or government in the last 18 months, provides an opportunity to press for improved business conditions for American exporters, importers, investors and service firms. Mr. Chairman, I think we have had a few successes. Some important countries are opening up slowly. But we have a long way to go before we achieve a fair balance of opportunities in the world's trading system.

Later this year, I will lead a ten-member delegation to China to meet with senior officials within that government. We will try to focus attention on the continuing cultural barriers that inhibit expanded U.S.-China trade.

The point is, Mr. Chairman, that the U.S. Chamber is actively involved, day-to-day, in promoting an improved climate for American business around the world. We cannot simply support an open trading system at home without recognizing that we have an obligation to pressure constantly for improved condition for our exporters and investors abroad. We were particularly pleased to note that in the House State Department authorization bill strong new language has been included to task U.S. ambassadors around the world to work toward improved market access. This new directive, if passed by Congress and implemented with aggressiveness, will help reinforce the activist posture already shared by thousands of American business executives.

Conclusion

Mr. Chairman, I would like to conclude my testimony by pointing out that the stakes involved in the clamor for protectionism are difficult to overstate. As I mentioned earlier, our trade interests cannot be separated from our broader domestic and foreign policy interests. When we fail in one area, the others are also at risk. World commerce, as much as anything, is

the glue that holds mankind together. Trade with other nations necessarily forces all of us to recognize how important we are to each other, and how much we depend on each other. It is through mutual recognition and mutual dependence that all of us can strengthen the foundation upon which to build a better, freer and more prosperous world.

I have included with my statement attachments explaining in greater detail the Chamber's position on a number of significant international issues, and I ask permission that they be included in the record. I would be pleased to try to answer any questions the members of this committee may have.

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Chamber of Commerce of the United States of America

Washington

Statement on the U.S. Trade Deficit and Industry Protectionism

The outsized U.S. merchandise trade deficits expected in 1984 and 1985 reflect the serious disadvantages faced in the current macroeconomic environment by U.S. businesses in competition with foreign rivals.

The major sources of the U.S. trade deficit are (1) the gap between the strong growth rate here and growth rates abroad; (2) reduced purchases from the U.S. by debtor developing countries; and (3) the strength of the dollar relative to foreign currencies. The deficit does not, however, indicate that U.S. industries are fundamentally weak or that they are being overtaken by unfair foreign competition.

Consequently, protectionist measures, such as an import surcharge, domestic content laws, and restrictive trade laws, are not a proper or effective means for reducing our trade deficit. On the contrary, import restrictions are apt to exacerbate the deficit in the future by further strengthening the dollar and frustrating the overseas recovery that is crucial to the revival of U.S. sales abroad. Particularly counterproductive would be import restraints that would further erode the already impaired ability of indebted developing countries to pay for U.S. exports. Nothing here should be construed as condoning imports to the United States priced below fair value or those benefitting from foreign government subsidy (as defined in applicable trade law), nor as opposition to United States corporations seeking redress under existing law and regulation against such imports.

Although protectionism is the wrong response to our trade deficit, the U.S. Chamber is concerned that, if sustained, the macroeconomic factors that have created the deficit will cause serious world market losses and the contraction of domestic industries that are fundamentally competitive. To prevent this, the U.S. should encourage policies overseas that invigorate foreign demand and support foreign currencies by creating conditions favorable to growth, adjustment, and expanding world trade. A key force for stimulating economic vitality overseas would be the dismantlement of foreign barriers to trade and investment while the U.S. works at the same time to keep its markets open.

November 1984

Chamber of Commerce of the United States of America

Washington

Statement on Bilateral Trade Agreements

The Chamber continues to advocate multilateral negotiations and agreements as the best means to reduce barriers to world commerce, and supports the principle of non-conditional most-favored-nation treatment as a general norm. Bilateral agreements, and any preferential arrangements among countries, should be avoided because they risk the erosion of the multilateral framework that best serves the free flow of trade and trade-related investment. However, exceptions may be justified if it can be demonstrated that bilateral agreements or arrangements are necessary to create momentum for multilateral negotiations for a more open trading system, or if multilateral action is highly improbable within a reasonable timeframe.

June, 1984

Chamber of Commerce of the United States of America

Washington

Statement on Managed Trade

The growing interest in and use of "managed trade" -- a term used to describe explicit or implicit deals between or among governments, with or without the participation of private parties, to limit import shares in a given market -- in general runs counter to the United States' interest in an expanding and open world economy. At the same time, managed trade may be a practical tool for affording to U.S. industries that have demonstrated injury due to fairly-traded imports the temporary import relief authorized by U.S. law and international agreements.

Therefore, the Chamber of Commerce of the United States believes that managed trade should be employed as a tool of import relief solely within the confines of the standards and procedures of the two major trade statutes offering relief from fairly-traded imports, Section 201 of the 1974 trade law (the so-called "escape clause") and Section 204 of the Agricultural Act of 1956.

The Chamber recognizes that efforts to manage trade outside the confines of these statutes nonetheless are apt to continue. If so, in all cases of managed trade for import relief from fair trade or for any other purpose, the process leading to managed trade should be transparent. The President should publish in the Federal Register an Executive Order announcing his intention to consider, negotiate, enter into, or accept an agreement or arrangement with a foreign government or exporter to restrain trade. Similarly, he should by the same means make notification if he has reason to believe that a foreign government or exporter is acting, or plans to act, to restrain its exports to the U.S. market. At the same time, the President should request comments on these actions.

At a later date, the President should publish in the Federal Register the results of any such negotiation or foreign action to restrain trade. At that time, the President should report on the anticipated costs and benefits of the results to the affected U.S. industries, including users of the restrained product, and to consumers. He should also report on the anticipated overall effect of these results on the U.S. economy.

In all cases of managed trade for import relief from fair trade, the link between such relief and action toward industry adjustment should be improved.

All managed trade for the purpose of import relief from fair trade should be limited in duration at the outset. Any renewal of such relief should be made subject anew to the same criteria and procedures identified for first-time import relief.

Chamber of Commerce of the United States of America

Washington

Statement on Proposed General Agreement on Tariffs and Trade (GATT) Round for 1986

The U.S. Chamber of Commerce's position regarding a proposed 1986 General Agreement on Tariffs and Trade (GATT) Round is as follows:

1. The Chamber supports new and dedicated multilateral efforts to reduce barriers and to restore and improve discipline and stability in the world trading system. The nature of the trading world has changed, and protectionist actions have increased sharply since the last multilateral trade negotiations in 1979. Import barriers and other trade-distorting practices have multiplied, often nullifying past agreements. New and better solutions, covering a wide range of possibilities, must now be sought.

2. Greater flexibility in the actual GATT procedures, techniques and negotiating style is needed, due to constantly changing worldwide economic conditions.

3. The convening of a representative GATT Preparatory Committee is overdue and its hard task of agreeing on an agenda and the means of pursuing its goals must begin. A disciplined and more stable international trading system will require this initial consensus among nations, developed and developing alike, on what must be sought and how.

The Chamber believes that the priorities for these new efforts are at least sevenfold: (1) to strengthen the disciplines of the international trading system, and to seek further reductions of non-tariff and tariff barriers (to do this, we must reappraise the successes or failures and reasons for such results of the Tokyo Round Codes and the GATT itself, and review issues such as Most Favored Nation Treatment, permissive customs unions and free trade areas, safeguards, dispute settlement, and government intervention in trade); (2) to examine GATT machinery and the role of its Secretariat in order to improve its performance; (3) to help GATT adapt to the emerging needs of services, investment and intellectual property rights issues; (4) to review the linkages between trade and monetary matters; (5) to assist developing countries assume a more active and responsible role within the world trading system; (6) to secure maximum public support in order to improve present trading rules and institutions and to provide directions for solutions to other new or yet to emerge problems; and, (7) to seek renewed Presidential negotiation authority from the U.S. Congress.

Assuming that these multilateral negotiations do not conclude for a number of years, it is critical that any trade problems that arise in the interim be resolved through bilateral, GATT Plus, or plurilateral mechanisms, and be consistent with the U.S. objectives of the multilateral round.

In light of this, the Chamber believes it would be premature for it to take positions on specific issues or comment on detailed solutions until more preparatory work is done. The Chamber will become involved in this preparatory effort.

Chamber of Commerce of the United States of America

Washington

Statement on U.S-Japan Trade Relations

The dramatic increase in the bilateral trade deficit with Japan from $19 billion to $37 billion in two short years, the continuing need for reduction of trade barriers, and highly volatile exchange rate movements are causing a crisis in the domestic political arena. Such events could result in the Congress taking ill-conceived actions that might appear to alleviate the trade balance problem, but which could actually result in exacerbating the situation.

It is vitally important that our policy makers in Congress and the Administration carefully define the trade problems to be solved. Both nations need to share leadership and responsibility for maintaining and expanding a global trading system which is truly open.

Given the critical nature of the situation, the Chamber reviewed pending legislation and Administration proposals, and made the following policy recommendations:

1. The Chamber opposes legislation that mandates the President to take retaliatory action against any country, since the Chief Executive must retain the flexibility he has under existing law which permits him to initiate specific actions based on his perspective of the national interest.

   We oppose such legislation for the following reasons: The potential of such a law not being in compliance with existing international obligations; the irrelevance of such broad retaliatory action based on response to an industry specific action; and the fact that such retaliatory action will not gain better access to Japanese markets. The Chamber continues to support current trade law which is designed to counter unfair trade practices that inhibit market access to U.S. exports.

2. The Administration should push the Japanese harder on market access through the traditional mechanisms of bilateral negotiations and agreements, and General Agreement on Tariffs and Trade (GATT) procedures, including Article XXIII, "Nullification or Impairment", on a case-by-case basis. The objective of the Administration should be to develop a more coherent trade policy with Japan in order to significantly increase efforts to gain access for U.S. investment, products, and services.

3. In the event that these traditional mechanisms do not accomplish access for U.S. investment, products, and services within a reasonable period of time, the U.S. should utilize its rights under domestic and international trade laws, and reconsider such unilateral actions as may be appropriate, and consider major changes in existing domestic and international arrangements governing trade.

Attachment

Statement on Access to Worldwide Telecommunications Markets

The U.S. Chamber supports an active program of U.S. government bilateral and multilateral negotiations to remove foreign barriers to U.S. exports. The critical role played by telecommunications in international trade of high technology products and services gives a special urgency to efforts to address specific barriers to international trade in telecommunications products and value added telecommunications services. Therefore, the U.S. Chamber welcomes legislative initiatives to encourage the Administration to negotiate greater access for U.S. firms to worldwide telecommunications markets, provided that such legislation conforms to the following principles:

1. The aim of U.S. initiated negotiations should be to achieve open trade in telecommunications products and services.

2. Legislation should provide a mandate to the Administration to negotiate the reduction or elimination of barriers to telecommunications trade and should include the authority to negotiate the elimination of any remaining U.S. barriers.

3. Progress towards greater access should be determined by monitoring the results of existing and future trade agreements to assure that all barriers are removed.

4. The U.S. government should take flexible and credible action to enforce existing agreements and to restore competitive opportunities if negotiations fail to produce significant progress towards a more open market.

5. Any bilateral agreements entered into by the U.S. government should be supportive of future multilateral negotiations and the international trade and investment system.

6. Legislation to the extent possible should encourage the use of existing U.S. government trade authority.

Major International Trade Actions:
Reagan Administration
1/1/81-8/23/84

FREE TRADE

1. 4/14/81
   President approves ITC recommendation to increase peanut quota by 300,000 pounds during the period of August 1980-July 31, 1981

2. 6/30/81
   President removes OMA's on shoes from Korea and Taiwan.

3. 7/8/81
   Administration issues statement on "U.S. Trade Policy."

4. 3/8/82
   Department of Commerce finds no subsidies on Canadian lumber.

5. 4/9/82
   President rejects quotas on casein imports.

6. 10/8/82
   President signs Export Trading Company Bill.

7. 4/26/83
   President rejects Houdaille petition, (Machine Tools).

8. 8/5/83
   President signs Caribbean Basin Initiative

9. 9/15/83
   Administration increases sugar quota by 150,000 short tons for FY'84.

10. 11/30/83
    Administration signs law increasing share of U.S. funding to the IMF.

PROTECTIONIST

1. 4/1/81
   Japanese initiated Voluntary Restrain Agreement on automobiles with U.S.

2. 9/11/81
   Administration levied a 1 cent a pound import fee on imported raw sugar.

3. 12/22/81
   Renewal of Multifiber Agreement. U.S. pushed for restrictive section. Restrictive textile bilaterals were agreed to through 1984.

4. 12/22/81
   Farm Act of 1981 approved by Administration (wheat, corn, rice, sugar, peanuts, dairy, meat).

5. 10/20/82
   Administration announces 3-year, $1.5 billion agricultural export credit program that will benefit from subsidized interest rates.
   President approves ITC recommendation to increase peanut quota by 300,000 pounds during the period of August 1980-July 31,1981.

6. 10/4/82
   President promised import regime on textiles which would "relate" imports to growth in domestic consuption.

7. 10/21/82
   U.S.-E.C. Steel Agreements to restrain imports of EC steel into the U.S.

11. 8/6/84
Administration rejects ITC recommendation to impose quotas (425,000 tons) or raise tariffs (by .05 cents per pound) on imported copper because restrictions were "not in the overall national economic interest."

12. 8/18/84
Administration rejects ITC recommendation to impose quotas on steel imports and a tarriff quota on semi-finished steel.

Compiled by:
Consumers for World Trade/Washington, D.C.

8. 1/15/83
Administration imposed a unilateral ceiling (700 million level reached in 1982) on imports of Chinese textiles.

9. 1/18/83
(Egypt)
Administration subsidizes wheat flour sales to Egypt, Morocco and Iraq in retaliation to subsidized EC sales of wheat and flour.

10. 4/1/83
President approves 45% increased duties on imported motorcycles.

11. 5/10/83
President reduces quotas on sugar from Nicaragua by 90%. Action taken in retaliation for Nicaragua's support of guerilla activities in Central America.

12. 7/5/83
President imposes tariffs and quotas on a wide range of specialty steel products for 4 years.

13 12/16/83
President agreed to tighten restrictions on textile imports. The restrictions addressed themselves to "low-waged third market nations.

14. 8/3/84
Administration announces new "country-of-origin" provisions on textile imports.

15. 8/18/84
Administration calls for negotiated cutback of steel imports to 18.5% of the American market.

CHAMBER OF COMMERCE
OF THE
UNITED STATES OF AMERICA

FRANK L. MORSANI
CHAIRMAN OF THE BOARD

1615 H STREET, N.W.
WASHINGTON, D.C. 20062
202/659-6000

September 5, 1985

The President
The White House
Washington, D.C. 20500

Dear Mr. President:

The U.S. Chamber of Commerce continues to applaud your leadership in bringing America back from the economic stagnation and malaise that characterized the 1970s. We are pleased to consider ourselves as a vital part of the coalition that has helped to bring your policies national approval.

With inflation under control and job creation, industrial production and economic growth near record levels, your economic program has succeeded in making American economic performance the envy of the world. Today, America stands out as a shining example of how to succeed in creating new opportunities for all of its citizens.

The purpose of this letter is to emphasize the critical importance of open world trade to America's economic future. Like you, Mr. President, the U.S. Chamber of Commerce is deeply committed to open, competitive world trade. We believe, however, that unless more is done to assure that foreign markets are as open to our exports as are our markets to foreign imports, protectionist legislation will evolve that could seriously jeopardize open world trade and our economy.

Mr. President, we are fully aware that the causes of our trade deficit are numerous and complex. We know that a healthy U.S. economy is going to continue importing more from, and exporting less to, sluggish economies abroad. We are also aware that the recent strength of the dollar in exchange markets is largely a result of the strength of the U.S. economy and the U.S. fiscal position.

However, there can be no escaping the fact that billions of dollars in market opportunities for U.S. firms, here and abroad, are lost because of the unfair and unreasonable trading practices of our competitor nations. In Europe, the Far East and around the world, countless subsidies and non-tariff barriers thwart our most competitive companies in agriculture, steel, high-technology, communications, services, pharmaceutical and numerous other markets, even as those nations take access to U.S. markets for granted. Despite numerous efforts at multilateral trade negotiations and some progress in tariff reduction, the situation grows worse every year. Unless our trading partners recognize that we mean business and are prepared to defend our interests, we have no realistic hope of inducing either trade liberalization by our trading partners or new trade negotiations aimed toward that end.

As you know, Congress has before it dozens of trade-restrictive bills. Regardless of the merits of each, taken together, they reflect the frustration of Americans with unfair and unreasonable foreign exploitation of American markets. Perhaps more importantly, many of these bills reflect a worrisome belief that your administration is too reluctant to do what needs to be done. Therefore, a consensus is growing that your discretionary authority must be limited and that certain retaliatory actions must be taken. Such an approach, in our opinion, does not serve this nation well. The economic, political and diplomatic environment varies from time to time and from country to country. What may be an appropriate response at one time and place may not be appropriate elsewhere. For this reason, we have opposed efforts to mandate specific Presidential trade actions legislatively. However, as long as our trade problems grow in the face of Executive Branch inaction, confidence in the Administration will continue to erode, the open trade consensus that has existed since World War II will disappear, and counterproductive legislation will be enacted. Such developments could seriously impair our broader foreign policy and national security interests as well.

Mr. President, your Administration simply must let those nations that abuse their position in world markets know that they will pay a price for their actions. Consequently, we urge you to take full use of the authority currently available to you under present law to take whatever actions are necessary to restore fairness in the international market place. We strongly recommend that you invoke Section 301 of the Trade Act of 1974, and any other provisions of law as may be appropriate, to compel corrective, trade-liberalizing actions by our trading partners. If necessary, you should deny access to the U.S. market to those nations that do not liberalize their practices. For too long, the openness of the American market has been viewed as a given by nations who do not seem to believe or care that rights to our market must be reciprocated in their markets.

The situation in America today demands action now, and the world trading system cannot survive for long without it.

Yours truly,

Frank L. Morsani

Ms. SHAINE. Trade adjustment includes three major segments: technical assistance for industry, financial assistance for industry, and employee benefits and retraining. Let's talk first about human resources, the principal thrust of this bill.

Chamber membership and American business, large and small, values its investment in human resources. Today's highly competitive and dynamic marketplace necessitates continuous retraining of the American work force. In fact, U.S. industry now invests over $30 billion in private-sector funds annually in direct education and training for this valued asset, human capital.

The chamber agrees that the U.S. economy can be strengthened by cost-effective retraining of workers adversely affected by imports, which would reduce and more evenly distribute the burden of economic adjustment. Title III of the Job Training Partnership Act is an excellent example of an effective public-private partnership that has already demonstrated success.

The existing Trade Adjustment Assistance Program provides extended unemployment benefits whether or not retraining is underway. It has been chamber policy to oppose that program, for the following reasons:

One, experience indicates that most TAA claimants do not suffer substantially greater economic hardship than workers displaced for any other reason. In fact, the GAO reports that nearly 75 percent of TAA recipients return to work prior to receipt of benefits, often working for the same employer. Therefore, if we are to agree that additional special assistance is warranted for this class of worker, those dislocated due to import competition, there must be a mechanism by which we can clearly identify those workers truly in need of additional assistance.

Two, extension of unemployment benefits may be a strong incentive to delay effective job search or to avoid early retraining. It merely postpones the adjustment for a worker who will not be recalled but for whom alternative employment opportunities are available.

May I, for just a moment, Senator?

Senator ROTH. Sure.

Ms. SHAINE. I would like to get to the subject—and I ask that our full remarks be included—of assistance for firms, which is given very short shrift in this bill.

Among other reasons, in your introductory remarks you cited comments from the Department of Commerce about bad history in that program.

I have, and I would like to offer it to the committee for inclusion in the record, a memorandum from H.P. Goldfield who is Assistant Secretary for Trade Development in the Department of Commerce, in which he attacks the very report which was provided to you with those statistics. I think you will find it interesting reading. He says that they are unsubstantiated, that the survey was done in an unprofessional way, and that the results have no validity.

Senator ROTH. Thank you. That will be included as part of the record.

[The memorandum from H.P. Goldfield follows:]

U.S. DEPARTMENT OF COMMERCE,
INTERNATIONAL TRADE ADMINISTRATION,
Washington, DC.

Memorandum for: John R. Szpanka, Assistant Inspector General for Auditing.
From: H.P. Goldfield, Assistant Secretary for Trade Development.
Subject: Draft Report on Inspector General Review of the Trade Adjustment Assistance Program.

I must express my disappointment concerning the draft report prepared by your office on the review of the Trade Adjustment Assistance Program. I had been expecting a substantive, professional report that used generally acceptable methodology and statistical techniques to present a meaningful analysis of the program's operations, and practical recommendations as to how the program could be improved, as most previous products from the DOC IG's Office have been. What I received was a report that was disorganized, based on a confused and, in our opinion, an indefensible methodology which utilized data that was incompatible and unsupportable. Furthermore, this report made no substantive recommendations as to how to improve the program, and made broad generalizations which demonstrated an apparent misunderstanding of the goals and objectives of the firm Trade Adjustment Assistance Program and how it operates. I find it of particular concern that your audit team, at times up to seven in number, could spend six months developing, conducting, and reporting on this review and come up with a product of questionable value.

Perhaps the critical tenor of the report is cause by the factual errors in it. As A. Conan Doyle's earlier investigator put it, "It is a capital mistake to theorize before one has data. Insensibly one begins to twist facts to suit theories, instead of theories to suit facts."

The review presented in your draft report is flawed to the extent that I feel that I must summarize my concerns in this cover memo before detailing the specific problems. Of major concern are:

The sample firm universes selected for the review were not representative of the program and were not consistent. Data developed from one unrepresentative sample was applied to another unrepresentative sample and used to make projections about total program performance. The data could therefore reveal little of substance about the program.

The report's title is inappropriate since it suggests a predisposition on the reviewers' part and prejudges the objectivity of anyone reading the report. We suggest that the report's title should be "Review of the Trade Adjustment Assistance Program for Firms."

The conclusions of the IG report states that during fiscal years 1982 and 1983, the cost of the TAA Program for firms was $50 million. This is not accurate since only $46.5 million of TAA funds were provided for firm assistance during this two-year period. Furthermore, the majority of the $10.4 million for direct loans will be repaid, and much of the $10.6 million put in guaranteed loan reserve account will probably not be used.

Attached you will find a detailed analysis of our concerns with the methodology used to conduct this program review, as well as an item-by-item discussion of the incorrect or misleading statements contained in the report itself. As you will see, both of these documents are extensive and reveal the specifics on which our concerns on the report are based. I would recommend that your staff rewrite the report.

Attachments.

ATTACHMENT A—REVIEW OF METHODOLOGY DOC IG REPORT ON THE TRADE ADJUSTMENT ASSISTANCE PROGRAM FOR FIRMS

The study's methodology is hard to follow, poorly documented, inconsistent, and suggests that the reviewers did not understand the goals and objectives of the TAA Program and how it operates. Furthermore, a thorough review of the methodology raises the question of whether this was a fair and unbiased appraisal of the TAA Program. The following points highlight our concerns:

While the IG team visited six TAACs (New England, New Jersey, Mid-Atlantic, Southeastern, Metro N.Y., and Mid-West), the sample of 303 firms entering the program came from four TAACs (Mid-West, Mid-Atlantic, New Jersey and New England); and the sample of 38 firms completing implementation assistance included firms from a different set of four TAACs (New England, New Jersey, Mid-Atlantic and Metro N.Y.). There is no explanation offered why the Metro N.Y. TAAC is excluded from the first sample, why the Mid-West TAAC is excluded from the second sample, or why the Southeastern TAAC is excluded from both samples.

The statement on page 4 of the report that the TAA Program "ignores many current and world-wide economic and market conditions" is simply not true. The TAA Program's goal is to help viable firms adjust by reacting to world-wide economic conditions. Firms are not helped to continue what they were doing, but to develop and implement a recovery strategy that capitalizes on a firm's strengths by identifying new product lines, new marketing niches and/or reducing production costs so it can compete. The TAACs clearly recognize that a high proportion of firms requesting trade adjustment assistance will be unable to implement such a recovery strategy, and these firms are screened out.

The methodology examines 303 firms "entering the TAA Program"—but entering the program is not defined. The chart on page 3a identifies these 303 firms as certified, but from the reasons given on page 5 concerning why firms drop-out, it is clear that many of these firms have in fact decided not to submit certification petitions, or submitted petitions and were determinied not eligible. During the two-year period reviewed, the four TAACs included in the 303 sample had a total of 249 client firms certified. Perhaps a more constructive analysis of certification would have included a discussion of the percentage of firms in the 303 sample that submitted certification petitions and what percent were certified.

The narrative on page 4 criticizes the TAA Program for a high drop-out rate. However, TAA is not an entitlement program, but rather an adjustment program designed to help a select group of firms through combined Federal, firm and private funds to become or remain competitive. The program screens out firms that are financially weak, or have management unwilling to make necessary changes, or cannot develop a strategy to overcome the overwhelming adverse economic and market conditions which creates U.S. import problems. In addition, the 72.6 percent drop-out rate is inaccurate since, as discussed above, it includes firms that were not certified, or according to the Trade Act of 1974 criteria, were ineligible to receive trade adjustment assistance. It is improper to classify such firms as drop-outs.

The method used (pages 4 and 5) to determine why firms choose not to participate in the program is questionable. Detailed data for only one TAAC (Mid-West) was presented. We do not believe the Mid-West TAAC is representative since during the 1982–1983 period it had the highest number of inactive clients of all TAACs. A statement is made that 48 out of 65 Mid-West 1982 and 1983 certified firms dropped out of the TAA Program before reaching implementation. However, the reasons given by these firms concerning why they dropped-out indicate that many of these firms did not even submit certification petitions, and therefore could not have been certified. Furthermore, we question the validity of relying solely on a firm's response for the reasons it dropped-out. A firm that was screened out by the TAAC, since it was considered not viable, or had management unwilling to make necessary changes, may not be objective with their comments on the TAA Program.

The report states that eligibility requirements contributed to the 24.1 percent of clients that dropped-out of the program due to disabling financial conditions. However, firms do not have to be mortally wounded by imports to become certified—but must demonstrate that increased imports contributed importantly to their sales or production and employment declines. Our experience is that many of the certified firms have the ability to become strong, viable companies.

The statement on page 7 of the report that the review team would determine "whether the success of the TAA Program would improve dramatically if such corrective actions proved effective in allowing more firms to reach the implementation phase" reveals a basic misunderstanding of the program's intent.

Success of the TAA Program should depend upon the number of firms that recover, not the number that enter implementation assistance. Many firms achieve successful adjustment by implementing recommendations in the Diagnostic Survey and Adjustment Proposal on their own, without even beginning implementation assistance. Many of the firms classified as "drop-outs" by the report have in reality received all the assistance they needed under the program to effectuate their recovery. This important aspect of the program is not considered in the report's methodology.

The sample used to determine how assisted firms benefit from the program, is unrepresentative of the TAAC Program's client caseload. Half of the sample is comprised of firms in apparel and leather industrial classifications, while during fiscal years 1982 and 1983, only 30 percent of the firms assisted by the TAACs were in these industrial sectors. Based upon our experience, firms in labor intensive industries, such as apparel and leather, find adjustment more difficult. In addition, 37 percent of the sample is comprised of Trade Act loan recipients, while less than 5 percent of the firms being assisted by the TAACs receive a Trade Act loan to implement their adjustment strategy. In general, Trade Act loan recipients are the

weaker TAA client firms since they are unable to obtain private financing to implement their strategies. The Trade Act loan recipients included in this sample were primarily EDA loans which were made under policies that have long since been abandoned. We would expect the Trade Act loans made under ITA's improved standards to show a higher success rate.

The reviewers' basis for measuring adjustment appears to be selective. First of all, only established or created employment and sales are considered. We agree that the firm's profit level is a key factor—especially when some adjustment strategies call for a reduced level of operations or concentration on a specific market or product line to enhance a firm's profit level. A firm with increasing sales and employment can only remain in operation in the long-term if it is profitable. However, we do not agree that two years after completion of implementation assistance is sufficient time to make the determination if a firm has adjusted. A firm's adjustment strategy is always a joint TAAC and firm effort, and often the firm is responsible for completing actions started which may occur over a multi-year period. For example, technical assistance may be provided to develop a marketing approach to penetrate a new market and following completion of the technical assistance, the firm will begin to establish a new sales network, revamp its product line and/or develop new products. Another example would be a firm that receives technical assistance to adapt new state-of-the-art manufacturing technologies. The technical assistance may advise the firm what new machinery to purchase and how to redesign its plant layout. However, following the completion of the implementation assistance, the firm is required to purchase the new machinery, install it, train the workers to use it and get the bugs out. In both of these examples, it may be years before the benefits of the technical assistance can be measured in terms of improved financial indices. In most cases, two years is too short a period to measure results and to determine if a firm has adjusted or not. Furthermore, in some cases a firm's adjustment may require a scaled-down operation—fewer employees and less sales volume.

The definition of the status of the firms listed in the table on page 9 of the report is questionable. In our opinion, the classification of firms into a grouping labled "Firms That Did Not Adjust" makes some invalid assumptions. The following points highlight our concerns with these classifications.

A bankrupt firm is not always a failure—sometimes bankruptcy allows a firm to work out its debts, continue, and work itself into a profitable operation. Of the six firms cited, the report provides only one example in this category, so we cannot tell if the other five firms in this classification can recover or not.

The draft report assumes that all "sold" firms are failures. Sometimes successful adjustment will result in an assisted firm being acquired by another entity. At times finding buyer for a firm is an element of a recovery strategy.

Declining firms are also considered failures in the draft report. However, declining sales and employment, two to three years, following completion of implementation assistance does not mean that the firm will not recover. As discussed earlier, the results of implementing an adjustment strategy may take several years. In fact, the examples given in the report of client #16, a leather goods producer, implemented a strategy of lowering sales volume to concentrate on capturing a smaller "customized" market. The firm's dollar sales have increased, but unit sales have decreased. This firm appears to have adjusted since it is producing fewer units, but has a higher profit margin. If it begins purchasing finished leather from Italy, the firm will be even in a stronger position.

Of five firms with established sales, the TAA Program is given credit for jobs and sales for only two of these firms. One firm (#12), which the TAA Program was given no credit for, is an electronic parts producer. According to the NJ TAAC this firm had employment of 17 and sales of $900,000 when it first contacted the TAAC, and has employment of 130 and sales of $1.4 million currently. With TAAC assistance, the firm developed overseas markets in Italy and Far Eastern countries for solar panels which have sold well. This firm has also opened up a new plant. We therefore do not agree with the IG report's conclusion that this firm's increases were not a result of TAAC assistance. Firm #34 was cited in the report as an example of a stabilized firm for which the TAA Program was not given credit. However, this men's outerwear producer received TAAC funded technical assistance on how to lower production costs and to establish new markets. The firm received private financing to implement this strategy. Although the TAAC did not arrange this loan, the TAAC Diagnostic Survey and Adjustment Proposal helped the lender decide to make the loan. In 1982, this firm had sales of $6.2 million, 260 employees and after tax losses of $258,000. The firm currently has 186 employees and profits of $70,000 after taxes in 1984. The firm's strategy was to consolidate operations, increase profitability, and purchase new machinery. Reviewing this firm's situation leads us to

the conclusion that this is a successful example of technical assistance for which both the TAAC program and firm deserve credit.

Of the five firms listed as improving, the draft report gave the TAA Program credit for four of them. The reason stated for not giving the TAA Program credit for the fifth client is because the firm stated that the sole reason for the sales increase was the firm's listing in a prominent industrial directory. It appears improper to unquestioningly accept the firm's statement as the sole reason for its recovery. The report does not disclose what TAA Adjustment Proposal recommendations were made or implemented for this firm and what role they played in its recovery.

The statement that 87 percent of clients completing implementation assistance failed to stabilize or improve is suspect. First, the percentage is computed wrong and by the report's own figures should be 76 percent. Second, we do not find the sample used to be at all representative of TAAC client firms. Third, we do not consider this statement a proper conclusion from the sample reviewed since the time period is too short to properly measure adjustment, the assumptions made in classifying firms are illogical, and the firm's profit level is not considered.

The practice of projecting the number of firms that will receive assistance, but will fail to recover from the 38 firm sample to the 303 firm sample seems to run counter to established research methodology and statistical techniques. Percentages based upon an unrepresentative universe of firms from a defined time period are applied to firms that have not dropped-out of the program. Little attempt was made to control any variables which could have affected the study. For example, the report does not mention that the 38 firms sample was covering a period (1982-1983) when the U.S. economy was in the throes of its worst recession since the Great Depression—so it was not always foreign competition that adversely affected client firms.

The report states that it takes too long for completed implementation assistance. The 38 firm sample had an average completion time from certification to implementation completion of 2 years 3 months for firms receiving technical assistance only, and 3 years 5 months for recipients of technical assistance and Trade Act loans. This does not appear to be excessive time to implement detailed recovery strategies.

The report does not address the benefits to a firm in the development of a Diagnostic Survey and/or Adjustment Proposal, even if the firm does not use TAA resources to implement the Adjustment Proposal. Many client firms have never received an outside analysis of their operations, nor gone through the process of developing a business plan. When a TAAC conducts a Diagnostic Review of the firm and presents to management its findings, it is often the first time the management team has had an independent evaluation of the company's complete operations. Even those firms which have had outside reviews of their operations and/or business plans find the TAAC-prepared Diagnostic and Adjustment Proposal of significant value. The Diagnostic's identification of problem areas is of special interest to managers who are often so busy struggling with everyday survival issues that they have not been able to focus on less urgent, yet broad, strategic matters. Company management is often able to use the Diagnostic to address important basic problems without additional assistance from the TAAC. Those firms that continue with the program through the development of an Adjustment Proposal receive even greater benefit. After receiving what is often their first comprehensive view of their firm's operations in the Diagnostic phase, management is involved in the development of an Adjustment Proposal (business plan) that shows them how to improve their company in order to compete more effectively in the marketplace. This proposal identifies the steps to be taken, the resources required, and the proper timing for the elements of the company's adjustment. At this point, it is common for many firms to implement their Adjustment Proposals without further TAA Program assistance. Obviously, the TAA Program plays a key role in the adjustment efforts of firms in both these categories even though they don't receive post-approval Trade Adjustment Assistance.

The statement on page 12 that the program is directed towards saving firms in declining industries which would normally be phased out, and that the TAA Program is fighting the inevitable, is not true. TAA client firms represent a broad array of industrial sectors. We certainly hope that it is not inevitable for these industries to be phased out. The TAA Program does not fight the inevitable—rather those firms with little hope are not helped, and only those firms with a viable recovery strategy receive implementation assistance.

Considering the report's flawed methodology, it is not surprising that when we analyze the results of the 38 firm sample we reach different conclusions. Based upon the table on page 9, the 38 firm sample resulted in 278 jobs stabilized or created, and $9.3 million of sales stabilized or created for which the IG report gave the TAA

Program credit. The $9.3 million of sales and 278 jobs does not appear to be a bad rate of return for the one-shot $5.9 million cost of assistance for the firms listed on page 9. Over the next 5–15 years this $5.9 million investment will be returned many times over in tax revenues, as well as the multiplier effect it will have on the economy. We believe the real rate of return is considerably higher. As stated earlier, the sample is unrepresentative and concentrates on firms less likely to be successful. The methodology does not give credit for all adjustment due to measuring a short-run period, ignoring those firms that adjust without complete implementation assistance, and the unsupported assumptions on how to measure and credit success. Furthermore, the cost of assistance is overstated since it includes the firm's share of the cost, as well as the cost of loans, many of which will be repaid to the Government.

ATTACHMENT B—DETAILED ANALYSIS OF DOC IG REPORT ON THE TRADE ADJUSTMENT ASSISTANCE PROGRAM FOR FIRMS

This analysis will include an item-by-item description of the incorrect or misleading statements contained in the review conducted by the Office of Inspector General of the Trade Adjustment Assistance Program for firms. These descriptions are kept purposefully short in order to avoid duplication of points covered in the overview memo and methodology review.

Page 1: Paragraph 1; The description of activities conducted by the Department of Commerce under the Trade Act of 1974 neglects to mention the Industry Technical Assistance Program which is a significant part of the Trade Adjustment Assistance (TAA) Program.

Paragraph 2; Technical assistance (TA) for firms is supplied through the Trade Adjustment Assistance Centers (TAACs), but the Industry TA program is conducted directly out of the Office of Trade Adjustment Assistance (OTAA) in Washington. It is therefore incorrect to state that TA is furnished exclusively by the 13 TAACs.

Paragraph 3; First bullet: Certification requirements do not state that firms can be certified only if employment has decreased; firms can also be certified if they can show a partial separation of workers, or a threat of imminent unemployment or underemployment. Furthermore, the certification process is not described accurately. The firm does file a petition. If, upon review, the petition is acceptable, the Certification Division institutes an investigation to, among other things, verify the data submitted by the firm and to develop other information relative to the determination, such as whether or not like or directly competitive imports are increasing absolutely or relative to domestic production. The telephone customer interviews are usually used as an important means of establishing the necessary linkage between the increasing imports and the declines that may exist in the firm, but other means are also used.

Second bullet: Preparation of the Diagnostic Survey and Adjustment Proposal often include the use of outside expert consultants if TAAC personnel do not have the required experience/expertise.

Page 2: First bullet: The statement that the phrase "Implementation assistance" is misleading and the examples purported to show why it is misleading to demonstrate that the reviewers had a basic misunderstanding of the program and what can be done with TAA technical and financial assistance. All of the activities the report states cannot be done with TAAC assistance are, in reality, eligible for assistance under the program. In fact, they have been done under the program. Implementation assistance is a shared firm and TAAC activity and Adjustment Proposal milestones must deal with all of the firm's problems, some of which are implemented by the firm without any Technical Assistance resources.

Paragraph 2; The statement is made that OTAA has no statistics on the number of firms that have successfully adjusted to imports. But the report does not mention that an OTAA-funded consultant study, which is scheduled for completion in late Spring 1985, is evaluating the adjustment process for firms.

Page 3: Paragraph 1; It is somewhat speculative for the IG staff to suggest reasons why Congress voted to continue the TAA Program in spite of Administration proposals to eliminate it.

Paragraph 2; Third bullet: The reason for looking at clients in six TAACs and then using data from only four of them are not explained. The problems with the client samples used are covered in detail in the critique of the review methodology.

Paragraph 3; Lines 2–3: The statement of the time frame during which this review was conducted is not correct. Our office was already being interviewed relative to this study in August and the report was not issued in draft form until February.

Lines 3–5: It is hard to believe that this audit was conducted in accordance with accepted standards, given the nature of data collection and analysis.

Page 3a: As discussed in the methodology review, this chart is inconsistent with the narrative, since the 303 firm sample includes non-certified firms.

Page 4: Paragraph 1; Lines 1–3: This statement is unfounded The TAA Program is of great help to a large percentage of those firms that receive substantive help under the program.

Lines 6–9: The TAA Program approach to helping trade-impacted firms does not ignore economic and market conditions that can affect firm performance. The exact opposite is true; the Diagnostic and Adjustment Proposal process are designed specifically to assess a firm in the context of existing external realities, as well as internal conditions. The strategy developed for a firm's recovery is designed to help the firm recover within the overall macroeconomic context.

Lines 9–10: While we recognize that there are deficiencies in the program, we object to the use of the term "serious" to describe them, especially when so little was done in the report to identify practical problems and realistic solutions to them.

Lines 10–12: There is no useful definition given as to what the phrases "entering the TAA program" and "receiving any constructive assistance" mean. Later discussion in the report makes it clear that many of the firms included in the universe of 303 firms "entering the program" had no real involvement in the TAA Program, while many of the firms characterized as not "receiving any constructive assistance" had, in reality, been helped to adjust by the TAA Program.

Lines 12–13: The discussion of firms projected to "receive assistance but will fail to recover" has little basis in fact. As the methodology discussion pointed out, it is at this point that percentages based on a completely different unrepresentative universe of firms from a different time phase of the program are applied to the firms that the report says have not "dropped-out" of the program. Thus these projections are basically unsubstantiated and misleading when making any assessments about the TAA Progam. In addition, later statements in the review report make it clear that some of the firms classified as having failed to recover have successfully implemented their recovery strategies.

Lines 14–16: The statement that only 11 of the 20 firms projected to recover will be creditable to TAA Program assistance is arbitrary. It becomes clear in the back-up material for the report that the IG staff assessment of what is or isn't attributable to the TAA Program is based more on innuendo than on meaningful standards.

Lines 16–19: The statement that the chart on page 3a depicts the "program's staggering failure to improve or stabilize import-injured firms" is not based on a defensible methodology.

Lines 19–26: Conclusions based on such faulty evidence are meaningless.

Paragraph 2; Lines 1–5: These statements indicate that the IG reviewers believed that firms had to complete full implementation assistance programs before they could benefit from participation in the TAA Program. As addressed in the methodology discussion, this is not an accurate assumption.

Lines 5–9: The question raised as to why firms eligible for the program would "drop-out" in such large numbers reveals two more basic errors in the IG review. First, the examples provided concerning why firms had "dropped-out" made it clear that a substantial portion of them were not eligible for assistance under the program. Second, as pointed out in the methodology section, many of the firms they classify as "drop-outs" have in reality received all the assistance they needed under the program to effectuate their recovery.

Paragraph 3; Lines 1–3: The use of the phrase "chose not to participate" is misleading. As was already pointed out, many of these firms were clearly not eligible for substantive assistance under the program and therefore no choice on their part was possible. In addition, as already discussed, many of the firms classified as "drop-outs" were really firms that had completed successful adjustments using TAA Program assistance.

Lines 5–6: To talk about the percentage of "certified" firms that "dropped-out", when the examples show that not all of the firms in the sample were certified and many did not "drop-out" by choice, demonstrates the weakness of the analysis.

Page 5: Paragraph 1; No explanation of the basis for the analysis of reasons firms "chose" not to participate is given. It appears that the IG staff took what in many cases could have been self-serving ex-client explanations on face value without checking to see if there may have been other factors involved in these "drop-outs." Knowing the historical TAA Program experience in this area, it is hard to believe that the IG staff did not come across firms that they thought had "dropped-out," when in reality the firms had completed adjustment efforts without TAA Program assistance in the implementation phase.

Paragraph 2; Bullet 4: While the report calls this a sample of "certified" firms, it is likely that the firms referred to did not petition and thus were not certified.

Bullet 5: While we can sympathize with firms worried about the confidentiality of their proprietary data, we do not feel apologetic for weeding out firms that are afraid to have the IRS see their books. While we do not share the data provided to us with other Government agencies, we certainly do not wish to help firms that avoid paying their taxes.

Bullet 6: The availability of lower loan interst rates or loans with less restrictive conditions does not mean that firms have to drop-out of the program. The great majority of TAA assisted firms do not receive TAA Financial Assistance. It is also noteworthy that one of the firms they cite as an example of a "drop-out" because of the requirement for personal guarantees is still in the program and negotiating the terms of the loan/guarantee agreement.

Paragraph 3; All of the reasons shown for firms "dropping-out" of the program because of disabling financial conditions appear to us to be indications of a well run program. We are especially pleased to see recognition given to the fine job the TAACs have done in weeding out firms that are not financially strong enough to effectuate a recovery. Firms that went bankrupt and/or closed should not be classified as firms that "chose not to participate" as the report has done.

Page 6: Paragraph 1; Bullets 1–4: Most of the reasons given in this section for firms "dropping-out" again support our contention of a well-run TAA Program and call into question the IG staff characterization of these firms as eligible clients whose departure from the program was voluntary. It is obvious that any firm that had its Adjustment Proposal rejected, or that was found to be ineligible for further assistance, is not leaving the program of its own accord. Similarly, any firm that wants only loan or loan guarantee assistance and does not want to undertake a complete adjustment program, does not merit further assistance under the program. We believe that the very examples used by the IG staff to supposedly depict a weak and ineffective program really show that the TAA Program does a good job of screening potential clients to ensure that they are legally eligible for and can make good use of program assistance.

Paragraph 2; While we appreciate the statements in this paragraph that most of the reasons cited for client firm drop-out could be corrected, we would have greatly appreciated if the reviewers would have taken the time to expand on those findings and give guidance as to what changes they recommend.

Paragraph 3; Lines 3–5: The description of firms entering the program "already mortally wounded by imports" ignores the fact that, as shown in the IG staff's own examples examined above, the TAA Program does a good job of weeding out firms that are not capable of effectively using assistance. The reviewers do not seem to understand the criteria for certification or misrepresent this criteria by referencing ". . . legislated requirements to prove import injury . . ." to support the contention that many firms are ". . . mortally wounded by imports before receiving assistance." This criticism might have been true about the Trade Expansion Act of 1962 which required a finding of serious injury or threat thereof, but the Trade Act of 1974 changed that requirement to the much less onerous declines in sales or production, or both, and actual or threatened separation of a significant proportion of a firm's workers. Under the Trade Act, imports must only contribute importantly (not significantly, as the report states on page 6) to the declines, whereas the earlier act required that imports be the major cause of the serious injury. Thus, the legislative requirements do not require the firm to be mortally wounded before it may get help.

Lines 10–12: The report's observation that imports have often captured TAA Program client markets which would make them "difficult, if not impossible, to reclaim" shows a basic misunderstanding about the whole adjustment process. One of the key elements of the Diagnostic review is an assessment of the potential markets available to the client firm and an identification of those markets that show potential for sales by the firm. Markets already effectively captured by imports would not be targeted in a firm's recovery strategy.

Paragraph 4; Lines 3–7: The average time required between certification and completion of implementation assistance, according to the chart on page 9, was 2 years and 3 months for firms that received technical assistance only, and 3 years and 5 months for recipients of both technical and financial assistance. We do not consider this to be "excessive" considering that implementation of a recovery strategy is often a multi-year commitment.

Lines 9–17: We appreciate the report presenting the TAAC Director's comments for condensing assistance time to us, but these are not new ideas. Certifying entire industries instead of firms has merit and has been discussed for several years, but

requires legislative changes. The concept of condensing the diagnostic survey and adjustment proposal into one document is currently under review in OTAA.

Page 7: Paragraph 1; The views in this section explaining that "many client customers, particularly large retailers are reluctant and/or just plain unwilling to talk to Government officials about their import activities" as a reason for eliminating the customer list requirement is misleading. Customers may indeed be reluctant or unwilling. The fact is they do talk with OTAA staff and provide valuable and pertinent information on a routine basis. OTAA staff has no difficulty in eliciting information on an almost daily basis with some of the largest retailers in the nation. Further, if one or another customer does not wish to talk with OTAA staff, the next customer is interviewed until the sample is large enough to support a conclusion. OTAA has never had a complaint from any petitioner whose customers we have interviewed about causing rumors in the business community, as reported in paragraph 6, page 5, or any other serious complaint alleging adverse affects because of customer interviews. OTAA Certification Division personnel are experienced professionals, keenly aware of the need to be discreet in the interviews, and each of them has performed thousands of interviews, with no problems. It is interesting that the report does not mention any alternatives to customer interviews, nor the fact that we do have alternative approaches. OTAA staff do not use the interviews if other methods are available. For example, letters from customers on the subject are accepted. If there are other data available to establish the necessary linkage, such as from the U.S. International Trade Commission or a parallel investigation from the Department of Labor, it can be used whenever possible. The OTAA staff experience, gathered over 15 years of experience in trade adjustment assistance, is that customer interviews are the most effective way of establishing the linkage the law requires between imports and their effect on the petitioning firm.

Paragraph 2; Lines 5–6: We object to the suggestion that the TAA Program should eliminate procedures which clients believe violate confidentiality. Although it is not entirely clear what those procedures are, there is a hint that it includes the customer interviews by telephone as well as the fear stated on page 5 that ". . . financial information would be referred to the Internal Revenue Service." We have never had a complaint about confidentiality during the entire life of the program since we do not violate a firm's confidentiality.

Lines 6–8: This statement implies that the TAA Program is not successful since not enough firms reach the implementation phase of assistance. Since the goal of the TAA Program is successful adjustment, the number of firms that reach the implementation phase does not measure success.

Paragraph 3; As discussed in the methodology section, a time period of two years after compelling implementation assistance is far too short to make a determination if a firm has adjusted. Also, as pointed out in the methodology section, the 38 firm sample is not representative of the TAA Program. Therefore, we do not believe that analysis of this sample can determine if lower drop-out rates will improve the program's effectiveness. We do not believe that the drop-out rate, as defined in the report, is a problem since it really is not a drop-out rate, but a retention rate. The fact that only 27.4 percent of the firms receive implementation assistance shows that the program is effectively screening out non-viable firms or providing assistance of quality sufficient to permit a firm to continue an adjustment without further assistance.

Page 8: Chart; As discussed in the methodology review, the classification of firms in broad categories, the assumption of failure to adjust after a two-year period, and the failure to consider the firm's level of profits in determining adjustment indicates the review team's lack of understanding of the adjustment process.

Paragraph 2; The projected success rate of the 303 sample from results of the 38 firm sample is illogical and similar to mixing apples and oranges. The 303 sample includes firms that chose not to seek certification and/or are ineligible. The industry mix of the 303 sample is also entirely different, with less concentration on labor intensive industries. We therefore question how success rates of the 38 firm sample can be projected to the 303 firm sample and, by inference, to the TAA Program as a whole.

Last Paragraph; Lines 5–8: The definition of the time required to complete implementation assistance is not correct. Implementation assistance is completed once the adjustment strategy is completed—not when the "firm and TAAC agree to accept the recommended strategy."

Pages 10 & 11: As previously discussed, we do not agree with the classification of firms and the assumptions made.

Page 12: Paragraph 1; The statement is made that it is perplexing why the TAA Program failed in light of well qualified and dedicated TAAC personnel. We strong-

ly believe that a representative sample, a longer time interval measurement, and an unbiased methodology would yield extremely positive results. In fact, even with all the flaws of the IG methodology, an evaluation of cost and benefit is not negative.

Paragraph 2; While for some product lines import problems are outside the program's control and influence, for many it is not. Those firms with good marketing opportunities and strong management can modify their products and go after markets that are not impacted. Helping firms capture new markets and/or lower production cost and improve quality in existing product lines is certainly not outside the program's control. Adverse world-wide economic and market conditions are not ignored, but are considered in helping direct viable firms toward new opportunities.

Last Paragraph; Helping to save a viable firm in a declining industry is consistent with a free trade philosophy. We certainly do not propose assuming all firms in declining industries will fail. However, development of an adjustment strategy for a firm in a declining industry is more difficult and a higher proportion of firms from declining industries are screened out. The comments in the IG report imply that U.S. trade policy should write off declining industries and concentrate on services. Such a policy would be more unfortunate since there are many firms in declining industries that are fully competitive with foreign producers, and many more could be competitive by implementing viable strategies. Since a significant portion of the industries considered critical to the U.S. Defense base are injured by foreign trade, a policy of writing off declining industries could affect America's national security.

Page 13: Paragraph 2; We do not agree that trade adjustment assistance is a "temporary reprieve at best." As long as assistance is limited to viable firms, with realistic recovery strategies, adjustment for many firms can and should be long-term in nature.

Last Paragraph; The December 1978 GAO report was done prior to the establishment of the TAACs. The GAO report offered constructive comments on how delivery of services could be improved and virtually all of the GAO recommendations have been implemented. Since the December 1978 GAO review, the DOC IG reviewed two TAACs—New Jersey and Mid-America. No major programmatic problems were found and most recommendations of these reports have been implemented.

Page 14: Paragraph 1; The December 1981 IG review identified problem areas in the Trade Act loan program, and most of these problems were related to EDA's management of the program. ITA used this report to make changes, and the prospects for improved quality of the financial assistance portfolio was acknowledged by GAO in its April 2, 1982 report entitled "Management of Trade Adjustment Program Shows Progress." This report (which is not cited in the present IG review) analyzed a large and mostly mature sample of loans dating back to 1975 that were processed through a relatively uniform set of guidelines. This GAO report attributed weaknesses in recovery primarily to firms that were too far gone, and to soft lending policies. The subject IG report now faults the program because it effectively screens out, during the early stages, those firms that are too far gone or are not willing to take a comprehensive approach to recovery.

Paragraph 2; We agree with the statement that there is a narrow window for firms that cannot get private financing and yet pay back the loan. This is why less than five percent of TAA client firms receive Trade Act loans to implement recovery strategies. However, we fail to understand why this confirms the report's conclusion that few import impacted firms can be predicted to adjust and are therefore poor credit risks, since the vast majority of the TAA Program's clients implement their strategies with outside private financing.

Lines 1-2: The IG report findings contradict the statement that the "TAA Program has not fostered economic growth and employment in import-injured firms." The 38 firm sample resulted in the TAA Program being given credit for 278 jobs stabilized or created and $9.3 million of stabilized or created sales. Even taking these grossly underestimated "findings", projecting this success ratio for the 126 firms completing implementation assistance during fiscal years 1982 and 1983 would result in nearly 1,000 jobs and over $30 million in annual sales. This is an extremely positive rate of return for a one time Federal technical assistance investment of $23.6 million.

Lines 3-5; The report states that during fiscal years 1982 and 1983, the cost of the TAA Program for firms was $50 million. This is not accurate since the following funds were provided for firm assistance during this two year period.

	Million
Firm technical assistance	$21.7
Direct trade act loans	10.4
Funds put in the reserve account to cover guaranteed loans	10.6

	Million
OTAA administration costs	3.8
Total	46.5

The majority of funds for direct loans will be repaid, and much of the reserve account will probably be used.

Lines 8-13: The report's conclusions are invalid since the methodology is flawed.

Lines 14-15: It is unfortunate that the IG team chose not to make any recommendations.

Ms. SHAINE. Thank you. That program is a program for small business. The money permitted is up to a million dollars in direct loans, and up to $3 million in loan guarantees, but it doesn't affect General Motors. It is the only show in town for small industry that is import-impacted. And if that program were terminated, there would be totally no redress; as it is, there is very little.

I would hope that, as you look at this legislation and move toward redrafting it in its final form, that you would look more kindly on both the technical assistance program and for additional funds for trade adjustment assistance to firms.

Thank you.

Senator ROTH. All right. Thank you very much for being here today, and I know you speak from a position of personal experience.

[Ms. Shaine's written testimony and the memo follow:]

STATEMENT

ON

THE\ TRADE ADJUSTMENT ASSISTANCE REFORM AND EXTENSION ACT OF 1985, S. 1544

before the

UNITED STATES SENATE COMMITTEE ON FINANCE

for the

CHAMBER OF COMMERCE OF THE UNITED STATES

by

Frances Shaine

September 17, 1985

Mr. Chairman and members of the Committee, I am Frances Shaine, Chairman of the SPM Manufacturing Corporation in Holyoke, Massachusetts, a Director of the Chamber of Commerce of the United States, on whose behalf I appear today, and Chairman of the Chamber's Council on Small Business.

Introduction

The Chamber congratulates the Senators who have sponsored the Trade Adjustment Assistance Reform and Extension Act of 1985, S. 1544. We are well aware of the economic hardships forced upon American workers and businesses by inevitable trade adjustment processes and commend you for your compassionate efforts to lighten some of those burdens. To us it is particularly significant that your effort crosses partisan and ideological lines.

This legislation highlights the intensifying concern over U.S. trade policy and performance. As you know, the United States experienced a record trade deficit of $123 billion in 1984, and this figure will almost certainly be exceeded in 1985. Despite overall statistics on industrial production and job creation during the economic recovery, the trade sector has not fully shared in that recovery. While economic adjustment is both necessary and inevitable in the long run, the costs in the short run to the affected

workers and communities are tremendous. We recognize that Congress is under strong pressure to pass legislation further limiting imports, and we acknowledge that earlier and stronger Executive Branch leadership in this area might have alleviated a substantial portion of that pressure.

On June 26, Chamber Board Chairman Frank L. Morsani testified before the House Committee on Banking, Finance and Urban Affairs on the Growing Clamor for Protectionism. He provided much of the background on the issue, and I ask that his testimony be included as part of this hearing record.

Having watched the Administration take too few initiatives in the intervening months, on September 5 Chairman Morsani wrote the President, urging that he use existing authority to "take whatever actions are necessary to restore fairness in the international market place," including the use of Section 301 and other provisions of law..."to compel corrective trade liberalizing actions by our trading partners." (I ask that a copy of that letter be included in the record.) Two days later the President announced a series of trade initiatives, which we hope will be effective.

In the meantime, however, the survival of trade-dependent communities around the nation is uncertain. Given the global structural adjustment, the failure of prior trade adjustment programs, and the lack of nonrestrictive, long-term legislative trade proposals, the Chamber pledges its assistance in forming a more responsive and constructive trade policy for America.

Our membership--including over 180,000 businesses--values human resources. We understand that financial capital by itself is not enough to enhance our ability to compete. We face a highly competitive and changing marketplace which necessitates the continuous retraining of the American work force. In fact, U.S. industry invests over $30 billion annually in direct education and training.

The Chamber believes that the U.S. economy would be strengthened by cost-effective efforts to promote the retraining of workers adversely affected by imports and to reduce and distribute more evenly the burden of economic adjustment. Title III of the Job Training Partnership Act (JTPA) is an excellent example of successful public-and-private partnership. We also believe that these adjustment efforts should not rely on unconditional cash payments or other subsidies.

Trade Adjustment Assistance

In this regard we have opposed and continue to oppose the Trade Adjustment Assistance (TAA) program as it is presently constituted. We have done so for two basic reasons:

1. Experience indicates that most TAA claimants do not suffer substantially greater economic hardship than workers displaced for any other reason. In fact, the General Accounting Office (GAO) reports that nearly 75% of TAA recipients returned to work prior to receipt of benefits, usually working for the same employer. Therefore, if we are to agree that additional special assistance is warranted for this class of workers -- those dislocated due to import competition -- it behooves policymakers clearly to identify exactly those workers truly in need of such additional assistance.

2. It is a strong incentive to delay effective job search or accept early retraining. It merely postpones the adjustment for a worker who has no reasonable expectation of returning to his previous type of employment.

We urge this Committee to be sensitive to the incentives S. 1544 would create for claimants, specifically to exhaust completely their regular state unemployment insurance (UI) benefits in hope of additional trade assistance

and retraining benefits. The regular state UI program is not designed for the longer-term unemployed; encouraging individuals to exhaust these benefits will increase the regular state UI program's costs, and, in turn, employers' experience-rated state payroll taxes (which fund the benefits).

Accordingly, the decision to enroll (or not) in a retraining program should not be delayed; retraining needs are either indicated or not, and a prompt, objective determination can and should be made by local and state officials, who are in the best position to assess local and state labor market conditions and needs. And a claimant, while receiving regular state UI benefits, should comply with current, weekly state-administered eligibility and qualifying criteria (job search, acceptance of suitable work, etc.).

Job search assistance and counseling have proven to be the most cost-effective mechanisms in removing workers from the jobless rolls. It is commonly accepted that the majority of all unemployed workers do, in fact, have enough skills to gain reemployment. What is most often missing is the encouragement provided by job search assistance and counseling.

Equally important is limiting fraud and abuse under the program. While acceptance of employment may be a legitimate reason for not completing the retraining program, recoupment provisions and other safeguards are necessary to compel individuals to complete successfully the retraining program rather than simply to continue to collect benefits. The performance standards provisions of the JTPA are a good example of such safeguard mechanisms.

The Job Training Partnership Act

Federal employment and training programs have existed since the early 1950s. Programs from the "New Frontier" and "Great Society" era were based on the concept that government programs could directly provide the training and the initial work experience needed by the poor to enter the job market.

However, over the last 30 years we have learned much about what is and is not effective in training and retraining. While government can play an important role in financing training, retraining and employment services, the private sector must play a lead role in determining the type of training and services provided. It is the private sector that has the best estimate of where current and future employment opportunities will exist and what type of training is needed to fill them. In 1982, the Congress used our accumulated knowledge and experience in drafting this country's current national employment and training program, P.L. 97-300, the Job Training Partnership Act.

The creation of the JTPA restates this country's commitment to assisting eligible Americans in securing meaningful, long-term unsubsidized employment and establishes a basis for public-private cooperation in addressing this issue. Utilizing the resources of both sectors, in partnership, the JTPA program is adminstered through a service delivery system that includes more than 500 local private industry councils (PICs) and 57 state job training coordinating councils (SJTCC). Each PIC and SJTCC is chaired by a private-sector representative. It is estimated that more than 4000 private-sector volunteers are involved in directing and administering approximately $3.5 billion in JTPA funds at the state and local levels.

A key element of P.L. 97-300 is Title III, training and employment aid for adversely affected workers. By establishing this title under JTPA, the Congress and Administration acknowledged the readjustment problems facing American industry and workers and provided federal funding to assist them. Through June 30, 1985, the Congress had appropriated more than $500 million to fund the Title III program. To date, thousands of American workers have been successfully retrained and employed under this program. Participants have included steel workers in Pennsylvania, automobile workers in California and Michigan, textile workers in the South, and shoe manufacturing employees in New England. In many of the cases, Title III funds are being used by recipients of TAA, assisting individuals through income maintenance, unemployment benefits, and retraining-reemployment services.

Title III has produced numerous success stories. However, the programs operating under it have yet to use fully all the funds provided by the Congress. According to the Office of Management and Budget (OMB), as of June 1984, the U.S. Department of Labor reported $140 million of unspent Title III funds. A number of variables have contributed to this problem, which include the slow start-up of Title III programs, changes in federal fiscal and program years, and delays in receiving state requests for Title III reimbursement. Therefore, it would be premature for Congress to establish a new retraining program until we can determine the use of current funds and projected future retraining needs.

We would make the following recommendations:

1. Congress should request the U.S. Department of Labor to conduct a management assessment of current use of Title III funds and require the Department to make recommendations on future programs to assist displaced workers under JTPA.

2. The JTPA as currently constituted is the appropriate mechanism for retraining displaced workers. Congress should require that any new TAA program use the service delivery system available through the JTPA.

3. Any new funding mechanism for TAA should be based on demonstrated need and full use of currently appropriated Title III funds.

Presently, the Chamber is continuing to study the issue of adjustment and retraining throughout our organization. We await the results of similar studies by the Office of Technology Assessment, the Urban Institute, and the Institute for International Economics. In fact, under the umbrella of the Chamber, the National Chamber Foundation also is studying the issue.

User Fee/Tariff

Finally, we have very serious concerns about the funding proposal suggested in S. 1544. We realize Congress' need for alternative funding sources, given the current budget deficit. However, the proposed "user fee" is a tariff and the Chamber has a long-standing and well-established policy in opposition to tariffs. Tariffs are inflationary and have a noncompetitive impact on the U.S. economy.

Under Article XIX of the GATT "escape clause" and Section 201 of the 1974 Trade Act, the President may impose duties on imports causing or threatening serious injury to domestic industries producing like or directly competitive products. In addition, the Chamber believes that selective use of Section 301 and other existing law can and should be used to spur trade liberalizing initiatives by our trading partners. However, a unilaterally imposed general tariff as envisioned in S. 1544 would, in our opinion, exceed the constraints posed under the escape clause and, in fact, undermine U.S. efforts to seek overseas trade liberalization through a strategy of selective response.

1. For the last 50 years, the U.S. has been in the vanguard promoting the multilateral trading system. To enact law that would unilaterally impose a tariff in the absence of domestic injury or regardless of GATT concerns would undermine the whole GATT process of moving on the basis of consensus. The U.S. must maintain the credibility of the GATT process.

2. By taxing only imported goods for the purpose of retraining U.S. workers, our trading partners may be able to seek compensation from the U.S. Raising a tariff alters the terms of previously negotiated agreements between countries, and our trading partners will likely seek compensation to restore the balance of concessions.

A tariff also would increase the cost of raw materials and secondary products being imported by U.S. exporters, thereby increasing their costs. Some U.S. products are already less price competitive because of the strong dollar, and any increase in the cost of securing imports will further erode their price competitiveness.

Conclusion

Mr. Chairman, in my own business I have experienced the problems of being import sensitive. In fact, one of the major shortcomings of S. 1544 is that it ignores the financial needs of many firms. I presently have a case pending before the International Trade Commission. I know from firsthand experience many of the problems that are involved. As a director of the largest business federation in the world, and the CEO of a business affected by the problem, I applaud your efforts. Let us not be too hasty in writing legislation. At the same time, let us work as expeditiously as we can to solve this problem in a compassionate and sensible way. We at the Chamber of Commerce of the United States and I as a business executive stand ready to assist you and your colleagues.

Thank you for your attention. I will be glad to respond to your questions.

Senator ROTH. Mr. Fennell.

STATEMENT BY DANIEL FENNELL, DIRECTOR, POLICY, PLANNING AND DEVELOPMENT, COUNCIL FOR LABOR AND INDUSTRY, PHILADELPHIA, PA

Mr. FENNELL. Thank you, Senator Roth.

Senator, my name is Daniel Fennell. I represent the Industrial Policy Council, which I helped to found, and the Council for Labor and Industry, which I didn't.

I would like to tell you, sir, that we are very, very happy to join with you and Senator Danforth and Senator Bradley and the other sponsors of S. 1544 and S. 1459 in supporting trade adjustment assistance. We support the whole program—the program for workers, and for firms, and for industries, as you do, in S. 1544.

We concur that trade adjustment assistance for workers is absolutely essential, and that the JTPA can't come close to meeting the needs or covering the kinds of requirements that there are. But we also think the firm program is essential to trade adjustment assistance.

Except for Mr. Brock's letter to you today, the administration continues to be shortsighted about this program which helps workers, companies, an the country.

Right now, the kind of displacement from imports which is taking place among workers and firms is of the sort and extent that was anticipated when this TAA compact was made with workers and American companies 23 years ago. S. 1544, we are happy to say, renews that compact in the context of GATT for whose sake it was originated.

Yesterday, Paul McCracken, in the Wall Street Journal, wrote that this country is now evidently at a comparative disadvantage in trade with everybody, not with just certain sectors of the world trading bloc. But you are generally familiar with that, and that's why these bills have been introduced. I would just like to focus for a moment on the Trade Adjustment Assistance Program for firms, in case there are voices raised that would suggest it is not worthwhile.

This is a program that produces a net revenue surplus for the Government. In one year alone, more than seven times the entire annual appropriation is returned to the Treasury from the workers and the firms that are benefited.

Workers who have jobs keep them with the firm program, and companies are restored to a competitive edge.

Last year more than half of all the adjustment implementations that were done since the program began took place, and that was despite a declining budget, and it was despite the fact that the budget was threatened with declining further. Firms have increased sales enormously under this program. Nearly 40 industries have been assisted to adopt competitive strategies. And, Senator, we petition you to ensure that the industry portion of the Firm and Industry Program is continued, because it is doing remarkable work. Most of the help is technical assistance, which you have wisely continued in your bill—engineering, technology transfer, marketing, exporting, cost efficiencies and controls, and an enor-

mously important thing called process technology improvement—the very kind of things that were focused upon by the President's own Commission on Productivity and Competitiveness.

A number of the firms which are helped have very dramatic turnarounds. I would like to give you one example:

The McCreary Tire & Rubber Co., which has come to Senator Heinz's notice in Pennsylvania, was a company which came to the Mid-Alantic Trade Adjustment Assistance Center [TAAC] one of the regional organs that work with companies in the field, technically bankrupt, owing everybody in sight—the IRS, its own employees, banks, trade creditors. It was failing. It was going down the tubes. Its sales had reduced 50 percent; its employees were deserting it; it was hanging on with its fingernails. The trade center didn't apply any magic when that company came in, just a lot of hard work. The TAAC looked at that company in terms of reducing its product lines, resulting in a leaner kind of operation, and unfortunately, fewer workers. Yet, despite all those troubles, that company is more healthy, more robust now. Instead of losing money and falling further behind, it made $1.1 million; paid $8 million in wages; paid off the IRS and all their creditors; and paid $3 million in taxes. On an investment portfolio model, Senator, that one single firm carried the entire budget of that regional trade center for over 2 years. And that is just one of the firms. I have included with my written statement examples of work with other companies and with which this Mid-Atlantic Center has worked, and testimony from companies about the help they received.

In questioning, I would like to remark on elements of the two bills, S. 1544 and S. 1459, but I don't want to take much further time now.

[Mr. Fennell's written testimony follows:]

SUMMARY

Statement of Daniel J. Fennell
to
U.S. Senate Subcommittee on International Trade
Committee on Finance
September 17, 1985

The Industrial Policy Council supports continuation of Trade Adjustment Assistance (TAA). TAA is a program that works - for people, for companies and for the country. If the United States is to have an open trading policy, it needs a TAA program. This is especially so, when displacement of workers, firms and communities is forcing protectionist pressures to mount. The program was begun 23 years ago to answer these pressures. Moreover, in the firm program, companies regain competitive edge. Workers who have jobs keep them. The program produces a net revenue-surplus for the government; in one year more than ten times the annual appropriation flows back to the Treasury from the firms and workers who are assisted. The record tells the real story:

- 5,000 firms have received assistance; 2,600 firms, employing more than 300,000 have been certified.
- Implementation of adjustment plans for FY '85 is seven times the rate in FY '84, more than half of all implementation since the program began. Yet the budget to help those firms still faces more cuts.
- In 1985 alone TAACS worked with 1300 firms, employing more than 125,000. Most help is technical assistance: engineering, technology transfer, marketing, exporting, cost efficiencies and controls.
- Close to 80% of firms with which regional Trade Adjustment Assistance Centers (TAACS) have worked are still operating, producing, employing people. Some of these are dramatic turnarounds.
- Firms have increased sales more than $250,000,000, profit more than $35,000,000.
- Nearly 40 industries, employing 7,000,000 people have received support to develop competitive strategies.
- TAACS have helped with millions of dollars of private financing. Less than 2% of firms assisted since 1981 have received government loans. Only 1 direct loan has closed in FY 1985.
- The program pays for itself many times over each year by taxes on profits and wages, savings in unemployment compensation, jobs which are preserved, and lower consumer prices.

Its testimony notwithstanding, the Administration itself recognizes that in an era of unprecedented trade deficits, trade dependent firms do not share the same recovery prospects as other companies. The former Chairman of the President's Council of Economic Advisors estimated that these firms will remain "relatively depressed" as compared to other domestic firms.

The program should be reauthorized. It is important to trade policy, it works, and it could be even better if the Administration supported it properly.

September 17, 1985
Statement of Daniel J. Fennell
Director, Council for Labor and Industry (Philadelphia)
Secretary, Industrial Policy Council (Washington D.C.)
One East Penn Square
Philadelphia, Pennsylvania 19107 Phone: (215) 568-2010
Prepared for Committee on Finance
Subcommittee on International Trade
United States Senate
Honorable John Danforth, Chairman

On Behalf of the Trade Adjustment Assistance Program

Mr. Senator, my name is Daniel J. Fennell. I represent the Industrial Policy Council, which I helped to found, and the Council for Labor and Industry.

Until February 1st of last year, I directed the Mid-Atlantic Trade Adjustment Assistance Center, which, as part of the Council for Labor and Industry, is headquartered in Philadelphia and staffed by private business consultants. Before that I was Deputy Director of Philadelphia's Private Industry Council, so I have a perspective on displaced worker programs in general and trade displacements in particular. I know the work and accomplishments of the firm program intimately. My statement is not only on behalf of the Mid-Atlantic Trade Center (which covers five states) and twelve others like it (which together cover every state in the country) but also on behalf of the impressive number of industries, companies and workers which have received assistance under the program.

The Industrial Policy Council and the Council for Labor and Industry urge the Subcommittee to reauthorize The Trade Adjustment Assistace Programs (TAA) for firms and workers as provided for in S. 1544 and H.R. 1926. I will remark on elements of these bills further on.

The Industrial Policy Council is an organization concerned with maintaining a strong industrial base for the United States. The Council for Labor and Industry (CLI) is a private economic development corporation with a broad constituency of clients and advocates from industry, labor, public affairs and academic circles. CLI has extensive consulting experience with growing and struggling companies and has done pioneering work in labor-management cooperation. These organizations believe that a dynamic international trading system is essential to the economic growth of the nation as well as to international prosperity and security. We also believe that an effective trade adjustment asssistance program is a fundamental ingredient of a national trade policy that promotes a fair and open international trading system. Moreover, we support the compact which the federal government made with American businesses and American workers nearly a generation ago, in 1962 . That compact provided TAA for firms and workers in return for their accepting reduced tariffs, with the unsettlements which both parties knew would occur as a result.

S. 1544 renews that compact in the context of GATT, for whose sake it has been reasserted since the 1960's. We applaud that. It is just as timely now as it was then; protectionist pressures are stronger than they have been in nearly a quarter century. We think that the Administration is short-sighted to walk away from TAA at the very time that displacements wrought by imports on workers, companies and communities are increasing these protectionist pressures.

The Administration is correct to resist extreme protectionism and to promote exports, but unless it responds to those who have been harmed by imports, we will have protection. A strong TAA program which is supported by the Administration, and which it helps, instead of hinders, can offer an alternative to protection.

In this statement I would like to brief you on some of the strengths of the TAA program for firms which is administered by the International Trade Administration, U.S. Department of Commerce. I will then remark upon elements of S. 1544 and S. 1459.

REASONS TO CONTINUE THE PROGRAM

There are three fundamental reasons for continuing the firm program:

1. Trade Adjustment Assistance for Firms and Industries works. Companies regain competitive edge. Workers that have jobs keep them.

2. The program gets bang for the buck. In any one year, the program returns to the U.S. Treasury many more dollars than it costs. It is not only a balanced budget program, but a <u>net revenue surplus</u> program - even when loan losses are considered.

3. The Administration's reasons for eliminating the program are wrong in both conception and fact. Trade injured companies <u>do</u> need special help, (especially with a $100+ billion deficit looming on top of last year's whopping imbalance); real adjustment measures for these firms are <u>not</u> available through other trade laws; large loan defaults are <u>not</u> characteristic of the firm program and have not been since 1981 -in fact, the majority of the firms <u>do not even receive</u> loans, but technical assistance in adjusting operations and returning to a competitive posture. There is <u>nothing</u> in the country to equal the Trade Program's achievements.

THE FACTS OF THE CASE - RESULTS

Contrast these significant results of the program with the selective story told by its opponents:

- 5,000 firms have received assistance; 2,600 firms employing more than 300,000 have been certified.
- Implementation of adjustment plans for FY '85 is seven times the rate in FY '84, more than half of all implementation since the program began. Yet the budget to help those firms still faces more cuts.
- In 1985 alone, TAAC's worked with 1300 firms, employing more than 125,000. Most help is technical assistance: engineering, technology transfer, marketing, exporting, cost efficiencies and controls.
- Close to 80% of firms with which regional Trade Adjustment Assistance Centers (TAACS) have worked are still operatung, producing, employing people. Some of these are dramatic turnarounds.
- Firms have increased sales more than $250,000,000, profit more than $35,000,000.
- Nearly 40 industries, employing 7,000,000 people have received support to develop competitive strategies.
- TAACS have helped with millions of dollars of private financing. Less than 2% of firms assisted since 1981 have received government loans. Only 1 direct loan has closed in FY 1985.
- The program pays for itself many times over each year by taxes on profits and wages, savings in unemployment compensation, jobs which are preserved, and lower consumer prices. More than $260 million flows to the U.S. Treasury each year.

The program's achievements are not merely quantitative. I have attached to this statement comments by clients and short descriptions of results with some of the companies in the Mid-Atlantic region. In one case, the company - McCreary Tire and Rubber from Indiana, Pennsylvania, which was founded the year the American expeditionary Forces landed in Europe in WWI -was technically bankrupt when it came to TAAC. It owed hundreds of thousands of dollars to trade creditors, the IRS, banks and employees. It had cancelled contributions to pension plans. Sales had plunged 50%. After nearly 70 years in business, its retained earnings had almost disappeared. The company was hanging on by its fingernails.

The TAAC had no magic for this case. Just hard work and a realistic appraisal of the situation. McCreary worked hard, too, making the hard decisions which allow change. TAAC concluded it was not practical to "restore" McCreary to former glory. Instead the company needed to reduce product lines, look for

smaller, leaner volume, new market niches, adjustments that did not call for a lot of capital investment but a lot of will. The first analytic steps were a contribution-to-profit review of each product line and a study of market potential. The first financial adjustment step was to negotiate an ESOP with the company's employees. There followed a year of reorganization and repositioning.

The result? The company made $1.1 million profit, paid all its creditors, IRS and the employee pension plan, established a 401 (K) plan for its key managers and paid $8 million in wages and $3 million in taxes.

There were fewer employees, sales were lower, but the company was healthier and embarked on a more robust path. In an investment portfolio model of success, the monies paid into public treasuries and the local economy by just this one company, could have carried the budget of the entire Mid-Atlantic Center for two years. The net government outlay? $60,000.

WEAKNESS OF THE CASE FOR ELIMINATING THE PROGRAM.

It has been said that the Trade Program for Firms is unnecesssary for those who are trade-injured and unfair to those who are not; that the program does nothing to quell protectionist sentiments; and that the record of Trade Act loans constitutes cause for eliminating the program now. These are weak reasons.

Disproportionate Impact.

The President's former Chairman of the Council of Economic Advisors estimated a notably disproportionate impact on trade dependent firms from record U.S. trade deficits. Martin Feldstein publicly declared in Forbes that even if economic recovery could be sustained with the large federal deficits, it would be a "lopsided" recovery since firms which are sensitive to trade would remain "relatively depressed." This, in fact, has happened. Clearly, trade-injured firms, tossed about by unfavorable trade winds are in a different boat than other firms.

Moreover, according to a recent study done for an intragovernmental emergency preparedness task force, nearly one-half of 92 industry sectors considered critical to the national purpose are threatened by erosion from imports. It is true that the present Trade Program budget has very limited means to help. It does not follow, however, to say that since we can only work with some firms, we will, therefore, not work with any.

Protectionist Sentiment.

One of the reasons for having created the TAA program was to help firms to deal expeditiously with trade-impact. Whether the impact was due to practices which were legally fair was not the issue. One TAA purpose, in fact, is to encourage companies to confront competitive pressures by becoming more competitive themselves, rather than by being more protected. It used to be that the first kind of help - sometimes the only kind - that a firm wanted was a government loan. The Trade Centers were instrumental in reducing the demand for loans by showing the way that companies could generate their own cash, reduce costs and reenter the capital markets. Now, the most common initial request from firms is for protection. The Trade Centers are again in the front line of persuading companies that their best advantage is in adjustment. The government needs to offer at least this much on its decades-old promise.

Loans.

The loan portfolio has been the bogey-man of the program. Actually, the loan issue is more of a strawman, as the following table and the statements following it will show:

FY Thru	# of Firms	$Gnt's Loans	$Direct Loans	Total$ (Millions)
'78	97	43.3	62.3	105.7
'79	82	38.7	55.5	94.2
'80	67	30.0	42.0	72.0
'81	49	21.8	27.9	49.7
'82	12	16.7	2.5	19.2
'83	16	7.9	7.9	15.8
'84	13	16.4	7.5	23.9
'85	2	3.0	.4	3.4
	334	177.9	206.0	384.9

- TAA for firms used to be a loan program and little else. That is not true anymore. In fact, now, there is hardly any loan activity. The major work is technical assistance.

- In contrast to 334 firms receiving loans, more than 2,600 have been certified over the same period. In the last two years only 15 direct and guaranteed loans have been made.

- Since 1981 less than 2% of assisted firms received loans.

* Trade Centers (TAAC's) have packaged millions of dollars in private capital.

In one year the program returns in taxes to the Treasury: 7 times the face amount of all loans since 1981; 60% of all loans since 1975; and more than 10 times the FY '94 program budget.

Oddly, the Administration does not take credit for this program which is both operating efficiently and achieving so much.

REMARKS ON S. 1459 AND S. 1544

In light of my experience with TAA, I have the following observations regarding S. 1544 and S. 1459.

S. 1459

* Time available to a displaced worker should not be cut back as contained in S. 1459. Three months is not sufficient time to find a job or to be trained for it. Therefore, the rationale that more people would be served with the same amount of money if each person was allowed less time, is not persuasive.

* We are not enthusiastic about workers having to repay training costs. Many of these workers will be leveraged to the hilt just to feed their families. Training prolongs their period of sacrifice. They are not in the same position as students at a college or university who have government support for their education.

S. 1544

* Loans.

We reluctantly agree that it makes sense to eliminate loans as long as the appropriation funds loans at the expense of technical assistance.

-There is hardly any loan program under the present budget, yet it is difficult, complicated and lengthy to process the few loans which are submitted.

-Although sometimes helpful, loans in many cases are not necesssary; technical assistance is.

-The majority of clients will be able to participate in commercial capital markets when helped with their other operational problems such as marketing, engineering or control.

-A tight budget cannot afford money for more than a few loans. The level of activity cannot support its administrative costs. Yet the money for even these few loans could obtain far greater results, with many more firms, if applied to technical assistance.

-Technical assistance has achieved impressive results without loans, but loans have not worked without technical assistance.

-Although loan availability attracts firms to the program, by appearing to be a panacea for more fundamental ills, it is sometimes a disincentive to "biting the bullet" with tough, hard, even disagreeable adjustment steps.

Financial Assistance.

In a different budget environment we would support financial assistance for important purposes such as product development or R&D, and urge consideration of alternatives such as lines of credit, administered through the TAAC, which would be shorter term and more flexible. TAAC's could also be adjustment versions of SBICs and promote SBIR, tailored to the particular needs of trade dependent firms.

* Technical Assistance.

In the present budget environment, technical assistance could have easily absorbed the entire $25 million appropriated in FY '84 and requires no less than the $22 million appropriated by the House for FY'85. In fact, unless H.R. 1926 is amended in conference to remove the provision that firms need not cost share the first part of their assistance, costs per firm will escalate dramatically. This will further limit the availability of technical assistance.

* Trust Fund.

In House debate on a TAA bill last year, the term "Special Account" was proposed in lieu of "Trust Fund" in the belief that the substitute term was less disagreeable to OMB.

* Discretionary Funds.

Although prospects for U.S. manufacturing industries are clearly being transformed, the task of determining how, why and where is still open-ended. A small proportion of money from the program should lie within the discretion of the Department of Commerce for the sake of making certain determinations. What adjustment strategies have worked for industry? What have the roadblocks been? What can be learned from past responses - successful and uncuccessful - in trade impacted manufacturing sectors? It is important that managers have the ability to answer these and other questions to keep the program responsive to real needs.

NEED FOR WORKER TAA

Continuation of worker TAA is necessary because the Jobs Training Partnership Act (JTPA) cannot take up the slack:

- JTPA is not funded to handle the diverse targets and populations claimed for it.
- Private Industry Councils notwithstanding, state and local agencies are not organized nor is the local training network established to handle trade adjusting workers with dispatch.
- These sometimes mature, often experienced workers need a program which recognizes their special circumstances and delivers on the TAA compact made twenty-three years ago.

In local economies which have many employment options, training may be less important than information, and referral to resources which can guide re-entry into the labor force as soon as possible. Provision should be made to allow payment for these services.

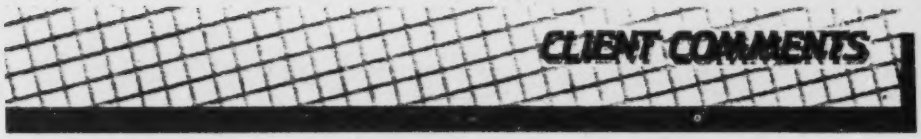
CONCLUSION

Lindley H. Clark, Jr. has written in the Wall Street Journal "When removal of trade barriers costs jobs, government can and should ease the transition, helping to find new jobs or to provide other benefits." A similar posture is taken by the New York Times, which states in an editorial, "It is immoral and impolitic to expect individual workers to bear the brunt of great economic change."

In a recent study entitled Under Pressure: U.S. Industry and the Challenges of Structural Adjustment, published by the Center for Strategic and International Studies at Georgetown University, the steering group concluded that while no single action plan can be undertaken by management, labor and government to facilitate the inevitable adjustment process, reforms ought to be guided by a series of principles to ensure overall coherence. "These include involving workers in adjustment decisions, linking assistance to programs of the Unemployment Insurance System and intervening early to aid displaced workers, and helping viable firms and industries compete through programs such as the Department of Commerce's Trade Adjustment Assistance Program."

We concur with these voices, and recommend them to your attention as well.

I would be happy to elaborate on any of these or other points of interest to you. Thank you.



"I don't think we would have survived without TAAC. It was totally far above the average of what you would expect to find in government. The TAAC people actually understood, far better than I, what was wrong with my business. I am usually very negative about 'government' programs, but I have to admit i ate crow on this one."

Gaines Fishing Lure Company, Gaines, PA

"When our company was on the verge of dire consequences, the folks at TAAC helped us see it through. Their technical assistance enabled our company to plan for the future, in spite of the fact that it is now one half the size it was ten years ago."

The Harwood Company, Marion, Virginia

"TAAC helped us as far as looking at the total picture. And, interestingly enough, we were looking for manufacturing help and they said we were missing the boat as far as marketing. We worked on that area and it has been successful."

Home Furnishing Company, Philadelphia, PA

"We never had to fill out a form. We provided the sales information and other necessary financial data and the TAAC people filled out the forms. We were fearful of the program at first, but with TAAC everything went smoothly."

Aetna Shirt Company, Baltimore, MD

"TAAC is not typical of government bureaucracy. The consultants put together an excellent document and they were not here very long. They were really able to get at the heart of our problem very quickly. With TAAC input and our implementation, we got in the black."

Reading Industries, Reading, PA

"A company like ours, competing against foreign imports, can't pay the full tariff for the kind of quality assistance TAAC offered. However, the $30,000 we paid (of a $120,000 total) was a very valuable investment for us."

Davis Lynch Glass Company, Star City, West Virginia

"The greatest contribution TAAC offered McCreary was that they identified conclusively which markets we should pursue, and which markets may help us overseas for our exporting division."

McCreary Industrial Products, Inc., Indiana, PA

MID-ATLANTIC
TAAC
TRADE ADJUSTMENT
ASSISTANCE CENTER

CASE STUDIES

INDUSTRY AND CONSULTING EXPERIENCE:

The Case Studies are brief outlines of representative Mid-Atlantic TAAC client projects. The summaries are organized by industry and nature of consulting work performed.

Many consulting studies are performed entirely by Mid-Atlantic TAAC's specialized consultants, while others are performed in conjunction with consulting firms who provide additional expertise on the projects.

The Case Studies reflect the flexibility of the Mid-Atlantic TAAC consulting process to address a wide variety of critical problems and opportunities of individual client firms regardless of industry.

MID-ATLANTIC TAAC TRADE ADJUSTMENT

CASE STUDIES

Apparel

Manufacturing Productivity
Industrial Engineering

BACKGROUND

This firm, a manufacturer of traditional sleepwear and underwear products for men and boys, began to make women's sportswear in 1979 as sales of its traditional products were being eroded by imports. Total sales dropped from $66 million in 1979 to $30 million in 1981.

The firm experienced difficulty in making the transition from its regular products to the new sportswear products because manufacturing methods differed greatly for the respective product lines. As a result, low productivity and unreasonably high production costs were being experienced in the manufacture of sportswear.

As the sales volume of the new sportswear line increased from 16% of sales in 1981 to 30% of sales in 1983, the need to develop sewing methods appropriate for the new products and to reduce manufacturing costs became paramount.

ASSISTANCE AND RESULTS

With TAAC assistance, a business plan was developed and the objectives related to improving productivity and reducing costs were met. Specifically: 1) sewing methods changes were installed to improve efficiency and productivity, 2) incentive piece rates for the new products were installed and 3) the overall piece rate system was restructured to an equitable earning opportunity. Additionally, the new and revised piece rate system was helpful to the firm in successfully negotiating a new labor contract with ILGWU.

With TAAC assistance, the firm was able to reposition itself in the market, expand its sales of sportswear products, and remain a viable competitor in the market.

Copper Tubing

Management Information Planning
Inventory Control

BACKGROUND

In 1980 this third largest U.S. manufacturer of copper tubing had sales of $120 million and employed 600 workers. By 1981 sales had declined to $60 million and employment dropped to 300. The increase in imports, particularly from Mexico and Canada, were, in part, responsible for the firm's eroding base and in 1981 the firm filed for bankruptcy.

New management acquired the business out of bankruptcy in 1982. Committed to strengthening the firm's viability, management (who lacked the technical expertise with this manufacturing process) sought assistance to conduct an analysis of its overall systems.

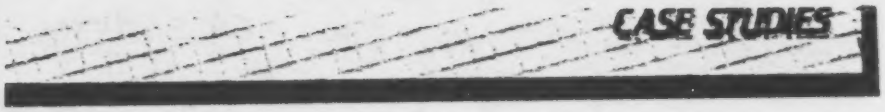
ASSISTANCE AND RESULTS

Projects to improve inventory management, production control, and computerization of the firm's accounting systems were undertaken with TAAC's assistance. In addition, in order to gain tighter control of operations, the firm recognized the need to improve their outdated financial and management information systems.

Thus far, the firm has received $36,000 worth of TAAC assistance. According to the president of the firm, "We are still in a very competitive market, but we are becoming more efficient and that is what we had to do in order to compete".

The firm's year end sales for fiscal 1984 were in excess of $100 million and employment is back up to more than 400 employees.

MID-ATLANTIC TAAC TRADE ADJUSTMENT



Broom Making Machinery

Product Development
Strategic Planning

BACKGROUND

This firm manufactures machinery that sews, winds and stitches brooms. The firm's products are sold worldwide. During WW II, the firm was not able to ship its products overseas and, consequently, lost 95% of its sales to Europe. As a result, Italian firms gained and maintained market share as they sold comparable products at a cost of 25% less than this U.S. firm.

The firm began to develop a semi-automatic machine for manufacturing polypropylene brooms. With a reliable and reasonably priced machine, the firm hoped to have a competitive product for export.

ASSISTANCE AND RESULTS

TAAC staff developed a strategic business plan for the firm directed toward improving the design of the new semi-automatic machine and identifying potential markets for the new product.

By February 1984 the design and fabrication of the new machine was completed. In order to reintroduce the firm's products into the world market, the firm, with TAAC providing marketing support for the trip, demonstrated their machine at an international Exhibit in Germany in May 1984. To build upon their success at the trade show, TAAC worked with the firm on a direct mail campaign to further introduce the machine into the world-wide market.

As a result of TAAC assistance, this firm has successfully re-entered the world market with the potential of a total of $8 million in sales in a 3-5 year period. Total cost of assistance was $51,900 of which the firm absorbed $12,975 of the total.

Glassware

Marketing, Training,
Management Control Systems

BACKGROUND

This firm is a manufacturer of illuminating glassware and votive candleholders with annual sales close to $2.0 million. These products are sold primarily to wholesalers in a fairly wide geographic pattern.

Imports from Taiwan and Mexico impacted the firm to the extent that sales decreased by more than 10 percent between 1978 and 1979 and employment decreased by 30 percent between 1978 and 1980.

The firm's financial results were erratic during this period as losses related to decreased volume were experienced.

In addition to the impact of imports, the firm had problems with production inefficiency, inadequate cost controls and poor control of inventories.

ASSISTANCE AND RESULTS

TAAC staff assisted the firm in the survey of the marketing position of the firm and an analysis of the manufacturing operations were made. Strategies involving product expansion and improvements in internal operations were developed.

A training program for workers performing specific decorating functions was developed and implemented. Systems for improving control of inventories, product costing and cost control were designed and installed.

The firm expanded its capacity to produce decorated glassware and, as a result of improvements in production efficiencies and controls, has been able to gain and to maintain a consistent short lead time position with its customers.

Inventories have been reduced and increased turnover rates have resulted in substantial savings. Due to the improved cost controls and product costing systems, the firm has been able to price its products for greater saleability.

MID-ATLANTIC TAAC TRADE ADJUSTMENT

CASE STUDIES

Tires

Cost-Accounting
Market Planning

BACKGROUND

This seventy year old firm is a manufacturer of automobile tires which are sold nationally. In 1982 the firm was in a posture of "technical bankruptcy" as they were being pushed to the brink of disaster due to increased foreign competition as well as a need to develop new markets.

Prior to the influx of imports from Korea and Taiwan there were over 600 tire manufacturers in the United States. Subsequently, less than a dozen remained. When the firm sought TAAC assistance they were experiencing a 25% sales decline and a mounting long-term debt of $4 million.

ASSISTANCE AND RESULTS

TAAC assisted the firm in evaluating their domestic and foreign markets and developed a cost accounting system to evaluate profitable product lines. As a result, marginal product lines were dropped, truck tires were de-emphasized and specialty tire lines were developed, such as aircraft tires, dirt track racing tires and tires for heavy industrial equipment.

With TAAC consulting assistance, the firm was able to expand its market share and again become financially solvent. They received over $84,000 in consulting assistance of which they assumed $21,000.

Home Furnishings

Product Development
Strategic Planning
Marketing

BACKGROUND

In 1978 this firm was a manufacturer of aluminum frame beds, cots and folding tables selling to mass merchandisers, such as Sears. In 1978 sales volume for this firm was $15 million and their employment was approximately 350 workers. As a result of increased competition from Far Eastern manufacturers, as well as an ineffective product development strategy, sales in 1979-80 sank to $5 million and employment was reduced to 100 workers.

ASSISTANCE AND RESULTS

TAAC staff developed a strategic marketing plan designed to utilize the firm's strengths in fabrication and overall production know-how. This would support a marketing effort that would include new product development based on market opportunities. The firm evolved from a strict manufacturing concern into a company which was now positioned to market their own manufactured products.

The project was implemented in several phases including utilizing focus groups to determine public reaction to new products, a direct mail campaign and a telemarketing program.

As a result of the initial phase of assistance, the firm developed three new product lines (which are now being copied by competitors) and increased their employment to 200 workers. Additionally, their sales are back to $15 million and they expect a 20% growth rate in 1985.

MID-ATLANTIC TAAC TRADE ADJUSTMENT

Senator ROTH. Thank you very much, all three of you. I will just make one comment, and then the chairman has asked me to move the hearing on.

With respect to the negotiations, I agree with what you said earlier, Mr. McNeill, in that I don't think this is only advantageous to us, but also to other countries as well. I just hope that they will take it seriously.

One of my concerns as one of the early advocates of GATT negotiations is that the other partners and countries take our requests seriously. I have had some people, and I think with some merit, say to me, "Well, they are not going to try to renegotiate anything in very deep substance for the simple reason they like it the way it is." I think it is important that our partners understand that this is a new ballgame, and that they better be willing to come forward and begin honest negotiations in a number of areas that have been off limits before.

I want to thank you, all three, for being here, and your testimony has indeed been helpful. And, Mr. Fennell, I apologize for mispronouncing your name.

Mr. FENNELL. Not at all. I appreciate being here under any name.

Senator ROTH. I would like to call forward the next panel: Dr. Bergsten, an old friend of mine and certainly one of the distinguished economists on the scene here, as well as Dr. Marc Bendick, Jr., another economist.

Dr. Bendick, I think we might as well proceed, even though there is another vote. But I am sure the chairman will be back in a few minutes.

Why don't you proceed with your testimony? Welcome. We are delighted to have you.

STATEMENT BY DR. MARC BENDICK, JR., ECONOMIST, BENDICK & EGAN, CONSULTANTS, INC., WASHINGTON, DC

Dr. BENDICK. Thank you very much.

I am a labor economist who has been asked to discuss for you what the experiences of past efforts to retrain and reemploy dislocated workers implies for the design of retraining provisions in TAA.

In most discussions of this subject there is a tendency to equate reemployment with retraining in the sense of an extended period of classroom study to acquire vocational skills for an occupation unrelated to the worker's prior occupation—protypically, steelworkers retrained as computer programmers. This equation is seriously misleading concerning the actual reemployment process for the majority of trade-displaced workers. In reality, most find reemployment in occupations and in industries similar to their prior employment. Many of those employed as semiskilled operatives in manufacturing return to those same sorts of jobs in manufacturing. Others find employment in the services sector but in occupations drawing at least partially on their prior experience. Only a very limited number make the transition to an occupation entirely unrelated to their prior work. Even when workers do make such a transition, they typically do so without extensive skill retraining

prior to hiring. Many occupations, particularly those available initially to displaced blue-collar workers, require only a limited set of skills, such as the knowledge of how to operate a particular machine. Employers generally expect to provide those skills to employees after hire, either by a few hours in a classroom or, more typically, on the job. In these circumstances, the primary qualities which employers consider in making their hiring decisions is that the worker is trainable rather than that he or she is already trained. This pattern is consistent with research findings that classroom skill retraining is relatively ineffective and cost-ineffective as a means of reemployment, compared to approaches which emphasize immediate placement on the basis of workers' existing skills.

Part of the strategy for immediate placement has been subsidies to employers to reimburse the cost of training new workers after hiring. However, since employers typically provide only a modest amount of such training, and since they expect to do that as part of their normal operations anyway, such subsidies in fact function largely as an implicit wage subsidy to encourage employers to hire, rather than literally as a training subsidy. Nevertheless, as a wage subsidy, they do seem to speed the reemployment process.

All this is not to say that no midcareer displaced workers are interested in or capable of making major career changes; rather, the point is that the number will be far less than a majority. During the depths of recent layoffs in the American automobile industry, 100,000 Ford production workers were offered free tuition if they wished to undertake retraining. Only 5 percent accepted the offer.

One characteristic relevant to understanding this reaction is the limited general education backgrounds of many dislocated workers. Among dislocated workers experiencing long-term reemployment difficulties, about one-third do not possess high school diplomas, while another one-third possess a diploma but cannot currently read, write, or compute at the skill level implied by that credential. These workers are ill-prepared to enter training programs in specific occupational skills. More importantly, they will not be readily hired in what I have described as the more typical reemployment process, namely that in which companies hire training-ready workers.

Another important characteristic of many dislocated workers is their lack of job-seeking skills. Training programs in job search techniques often involve 1 or 2 weeks of classroom work and then a followup structure, which may continue for weeks or even months, in which workers come together every day to work at jobseeking as a full-time activity. The experience of past programs is that such training efforts can be both effective and cost-effective in speeding reemployment.

In light of these facts, what should be the retraining requirement for workers receiving TAA? I would suggest that provisions to require retraining of all program participants makes sense only if several important elements of broadening are incorporated in the definition of what is considered "training."

First, training should be defined explicitly to include adult basic education, including high school completion and English for the non-English-speaking.

Second, training should be defined to include training in job search skills and follow on supervised job search.

Third, the bill should be worded to facilitate the use of subsidies for on-the-job training as a form of implicit wage subsidies, because that is the mechanism by which reemployment is actually being promoted.

And fourth, relocation assistance, such as is provided for in S. 1459, should also be made available.

In short, Mr. Chairman, the thrust of my testimony is that the reemployment process is more pluralistic than is assumed by a single-minded focus on classroom skill retraining for occupational change. Only with their mandate broadened in the four ways I have suggested will the retraining provisions of the bills before you be relevant to the needs of the majority of trade-displaced workers.

Senator DANFORTH. Thank you, Dr. Bendick.

Dr. Bergsten, before you testify, again we are well along into a vote on the floor of the Senate; so I think, rather than have you interrupt your testimony, we will just come back to it. I want to apologize to everybody for all of the interruptions in today's hearing.

Senator Moynihan, who has been very active in trade adjustment assistance and who is a cosponsor of the Roth-Moynihan proposal, just hailed me on the floor of the Senate during the last vote and asked that I announce that he is, of course, very interested in the subject matter and regrets that he could not be here; but he is involved in some negotiations dealing with a public works matter very important to his State, so he just cannot be here today. He asked me to make that announcement.

We will be in recess for just a few minutes, then back to you, Dr. Bergsten.

Thank you very much.

[Whereupon, at 3:38 p.m., the hearing was recessed.]

[Dr. Bendick's written testimony follows:]

THE ROLE OF RETRAINING IN REEMPLOYING WORKERS DISPLACED BY IMPORTS

Marc Bendick, Jr.

A Statement before the Subcommittee on International Trade of the Committee on Finance, United States Senate, September 17, 1985.

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Mr. Chairman and Members of the Committee:

I appreciate the opportunity to participate in these hearings on extension and reform of the Trade Adjustment Assistance (TAA) Program. I am Dr. Marc Bendick, Jr., a labor economist specializing in the reemployment problems of workers dislocated by structural change in the economy. I have been asked to discuss the experience of past efforts to retrain and reemploy these workers and what these experiences imply for the design of efficient and effective retraining provisions in the Trade Adjustment Assistance Program.

Classroom Retraining is not the Primary Path to Reemployment.

In reauthorizing Trade Adjustment Assistance, it certainly makes sense to continue the process, begun in earlier reforms of the program, of emphasizing services to promote reemployment rather than income maintenance while workers remain unemployed. This is so both for reasons of equitably assisting workers in need and for reasons of promoting the growth and productivity of our national economy. It is plainly the intent of both of the bills before you, S.1554 (the Trade Adjustment Assistance and Reform Act, introduced by Senator Roth) and S. 1459 (the Job Security Bank Act of 1985, introduced by Senator Bradley).

In both bills, and in most national discussion of this

subject, there is a strong tendency to focus on retrainihg in the sense of an extended period of classroom study to acquire vocational skills providing entry into an occupation unrelated to the workers' prior occupation. This is assumed to be the typical process for achieving reemployment for midcareer workers whose prior jobs have permanently disappeared under the impact of increased international competition. Thus, in April of 1983, President Reagan captured the national imagination with a much-publicized visit to a federally-funded project in Pittsburgh where one hundred unemployed steel workers were enrolled in a training program of a year's duration to reemploy them as computer programmers and computer operators. Unfortunately, this image is generally misleading concerning the actual reemployment process for the majority of trade-displaced workers.

Evolution, Not Revolution, in the Job Market

In reality, most displaced workers find reemployment in occupations and in industries relatively similar to their prior employment. Many of those employed as semiskilled operatives and assemblers in manufacturing return to those same sorts of jobs in manufacturing.[1] Others find employment in the services sector but in occupations drawing at least partially on their prior experience. (For example, a fork lift driver from a manufacturing plant might become a fork lift driver in a wholesale distribution

warehouse.)[2] Only a limited number make a transition to an occupation entirely unrelated to their prior work history and job skills.

Equally importantly, even when workers do make a transition to an occupation unrelated to their past occupation, they typically do so without extensive skill retraining prior to hiring. Many occupations--particularly those available initially to displaced blue collar workers--require only a limited set of skills such as the knowledge of how to operate a particular machine. In most circumstances, employers expect to provide those skills to employees after hire, either via a few hours in a classroom or (more typically) on-the-job, via observation and interaction with an experienced fellow worker. Employers constantly providing this modest level of training to their already-employed workers as employees are reassigned to different tasks or as the company changes its production processes. Therefore the costs of hiring and training a trade-displaced employee are not generally seen by employers as prohibitive.[3]

In these circumstances, the primary qualities which employers consider in making their hiring decisions is that the worker is <u>trainable</u> rather than whether he or she is <u>already trained</u>. This preference is consistent with the experience of earlier government-sponsored training programs in which graduates of a program in one field are often readily hired after graduation--but in an unrelated field (for example, newly-trained bakers are hired as electronic assemblers); employers were using completion

of the training program as an indication of trainability rather than for the specific skills acquired.* This pattern is also consistent with the experience of the nation's oldest reemployment program for displaced workers, that run by Downriver Community Conference in the Detroit area. In that program, classroom skill retraining was found to be relatively ineffective and cost-ineffective as a means of reemployment, compared to approaches which emphasized immediate placement of workers on the basis of their existing skills.*

Part of a strategy for immediate placement--such as that utilized by the Downriver Community Conference--might be subsidies to employers to reimburse the costs of training new workers after hiring. Since, as mentioned above, employers often provide only a modest level of such training after hiring, and since they expect to do that as part of their normal operations anyway, such subsidies realistically function largely as a wage subsidy to encourage employers to hire rather than as a training subsidy. Nevertheless, as a wage subsidy, they may well speed the reemployment process for trade-displaced workers.*

What Training do Workers Need and Want ?

The tendency to emphasize minimal job transitions and limited retraining in the reemployment of midcareer displaced workers is dictated not only by employers' preferences. It also

reflects the circumstances of the majority of job-seeking workers, many of whom are not disposed socially or psychologically to undertake major changes in their careers. An interesting case in point is provided by an effort of the Swedish government to retrain auto assembly workers as male nurses--an effort which failed both at the stage of recruiting workers interested in making the transition and at the stage of employing those who did complete training.[7] This is not to say that no midcareer displaced workers are interested in or capable of making major career changes. Rather, the point is that the number will be far less than a majority. During the depths of the 1981-1982 layoffs in the American automobile industry, the "nickel an hour" retraining fund jointly administered by the Ford Motor Company and the United Auto Workers offered to every Ford production worker on indefinite layoff free tuition if he or she wished to undertake retraining. Out of 100,000 workers to whom the offer was extended, only 5,000--five percent--accepted the offer.

Another relevant characteristic of many displaced workers is their limited general educational background. My empirical research suggests that, among dislocated workers experiencing long-term reemployment difficulties, about one-third do not possess a high school diploma, while perhaps another one-third possess a diploma but cannot currently read, write, compute, reason, or communicate at the skill level implied by the credential.[8] Such workers are ill-prepared to enter training programs in specific occupational skills. Equally, they will not be

readily hired in what I have described as the more typical reemployment process, namely, companies hiring training-ready employees.

A final characteristic of many dislocated workers which handicaps them in their reemployment efforts is their lack of job-seeking skills. A substantial proportion of these workers have, prior to losing their jobs, enjoyed long tenure with one employer. Their job search skills, which often were not extensive in the first place, are therefore typically rusty from disuse. They have not, within recent memory, been faced with the challenge of writing a resume, presenting themselves in job interviews, searching out jobs not publicly listed, or translating their experience in one industry into terms indicating its relevance to other industries. Training programs in job search techniques often involve two phases. First, these programs provide an initial period of one or two weeks of classroom and practical training. Then they provide a followup structure, which continues for weeks or even months, in which workers come together every day to work at job-seeking as a full time activity. The experience of successful reemployment assistance programs for dislocated workers is that such training efforts can be both effective and cost effective in speeding reemployment."

Implications for Retraining Provisions in the TAA Program

Given the characterization, presented above, of the reem-

ployment process by which the majority of trade-displaced workers actually find reemployment, what should be the retraining requirement for workers receiving TAA? I would suggest that provisions which require retraining of all program participants make sense only if the following three elements of broadening are incorporated in the definition of what is considered training under the program:

First, training should be defined explicitly to include adult basic education. The allowable range here should include, among other activities, remedial adult education, special education to deal with learning disabilities, English for the non English-speaking, and programs to obtain certification of high school completion (the G.E.D. certificate). As S. 1544 is currently worded, such decisions are left primarily to the local Private Industry Councils, while phrasing implies that only occupationally-specific training is to be covered. (See, for example, Section 236(a)(2), where training is allowable only if it "provides training in an occupation for which a need exists..."). Training which is remedial and not occupationally specific may in fact be far more useful in promoting reemployment.

Second, training should be defined to include training in job search skills and followon supervised job search. Again this is a subject where deficiencies in workers' skills hampers their reemployment and where training can be provided cost-effectively. Yet the current wording of S. 1544 would seem to preclude

it.

Third, the bill should be worded to facilitate the use of subsidies for on-the-job training as wage subsidy. That is, it should be recognized that the mechanism by which employment is being promoted is the latter not the former. In particular, I would suggest deletion of the provision, in Section 236 (c) (1) of S. 1544 that precludes redemption of the voucher in cases where a worker is hired in his or her previous occupation.

The Role of Mobility Assistance in Worker Reemployment

S.1459 contains a provision making TAA funds available for worker relocation as part of the reemployment process. I would advocate the inclusion of that provision in a revised TAA program.

This sort of assistance has been a feature of a number of previous rsemployment programs, including Trade Adjustment Assistance itself. Two lessons stand out from this past experience. The first is that, even with relocation assistance, mobility will be an option elected by only a minority of displaced workers --typically only about ten percent. The second is that the assistance serves mainly to reimburse the costs of those workers already willing to undertake a move rather inducing additional workers to join them.[10]

With these cautions in mind, however, it nevertheless

makes sense to include mobility assistance as an option. The thrust of my testimony today has been that the reemployment process for trade-displaced workers is more pluralistic than is assumed by a single-minded focus on classroom skill retraining for occupational change. The mobility option would extend the range of ways in which TAA can assist dislocated workers, as well as the number of such workers who can be assisted, while still retraining a focus on promoting reemployment.

Conclusion

With its mandate broadened as suggested above, the principle of using retraining to promote reemployment will be significantly enhanced relative to what it would be if retraining is construed in its narrowest sense. The option of classroom skill retraining for occupational change would still be open for the minority who wish to undertake it. But support will also been extended to the broader range of workers under TAA for whom--and for whose potential employers--retraining, narrowly interpreted, is not the relevant path to reemployment.

FOOTNOTES

1.Manufacturing accounts for a declining proportion of jobs in the United States--because of the rapid expansion of jobs in the services sector--but not a declining total number of jobs. Manufacturing has provided more than twenty million jobs for the past several decades and is predicted to continue to do so for the next several. Thus, while workers newly entering the labor market will primarily find jobs in services, the majority of midcareer workers already established in manufacturing occupations will have opportunities to finish their working lives in those occupations. See Robert Lawrence, Can America Compete? (Washington, D.C.: THe Brookings Institution, 1984).

2.The Bureau of Labor Statistics predicts that the greatest number of new job opportunities in the next decade will be in such traditional occupations as secretary (700,000 job openings), truck driver (500,000 openings), and building janitor (500,000 openings). New, training-intensive, high technology occupations --such as robotics repairer or bioengineering technician--may exhibit spectacularly high rates of growth in percentage terms but actually generate very limited numbers of job vacancies. See Marc Bendick, Jr., "Employment and Training Programs to Reduce Structural Unemployment," testimony before the Joint Economic Committee, U.S. Congress, September 16, 1983.

3.See Marc Bendick, Jr., "Government's Role in the Job Transitions of America's Dislocated Workers," testimony before the Committee on the Budget and the Committee on Scince and Technology, U.S. House of Representatives, June 9, 1983.

4.See Gerald S. Somers (ed.), Retraining the Unemployed (Madison: University of Wisconsin Press, 1968).

5.D. Alton Smith, Jane Kulik, and Ernst W. Stromsdorfer, "The Economic Impact of the Downriver Community Conference Economic Readjustment Activity Program: Choosing Between Retraining and Job Placement Strategies," in Kevin Hollenbeck et al. (eds.) Displaced Workers: Implications for Eucational and Training Institutions (Columbus, Ohio: National Center for Research in Vocational Education, 1984), pp. 237-274.

6.See Robert Eisner, "Employer Approaches for Reducing Unemployment," in D. Lee Bawden (ed.), Rethinking Employment Policy (Washington, D.C.: Project on the Federal Scial Role, forthcoming)

7.Marc Bendick, Jr., "The Swedish 'Active Labor Market' System for Reemploying Displaced Workers," Journal of Health and Human Resources Administration 6 (February 1984), pp. 209-224.

8.Marc Bendick, Jr., and Judith Radlinski Devine, "Workers Dislocated by Economic Change: Do they Need Federal Employment and Training Assistance?" in The Federal Interest in Employment and Training (Washington, D.C.: National Commission for Employment Policy, 1981), pp. 202-203.

9.See Marc Bendick, Jr., "Government's Role...", op. cit., and Smith, Kulik, and Stromsdorfer, "The Economic Impact...," op. cit.

10.Marc Bendick, Jr.,"Worker Mobility in Response to a Plant Closure," in Richard Swigart (ed.) Managing Plant Closures and Occupational Readjustment (Washington, D.C.: National Center for Occupational Readjustment, 1984), pp. 47-59.

Senator HEINZ. The committee will come to order.

I am advised that Dr. Bergsten will be with us in a minute.

[Pause.]

Senator HEINZ. Dr. Bergsten, I understand you were interrupted by the recess of the Chair. The committee, working like a finely oiled Swiss watch, has recalled you to continue your testimony. Please proceed.

Dr. BERGSTEN. I hope that Swiss-watch precedent is not regarded as the base for our competitive outcome in the economy.

Senator HEINZ. Or theirs.

STATEMENT OF DR. C. FRED BERGSTEN, DIRECTOR, INSTITUTE FOR INTERNATIONAL ECONOMICS, WASHINGTON, DC

Dr. BERGSTEN. Thank you very much; it is good to be here.

I will skip the preliminaries in my own very short talk. I am sure you have heard enough today about the basic objectives and merits of trade adjustment assistance.

I would only say that I believe that an essential element of any effective trade policy in the United States is an effective program of trade adjustment assistance. We have not had one in the past, particularly in the last few years. I am delighted that the committee is seriously considering some new approaches, and I endorse the bill that is before the committee today.

What I want to put before you very quickly is an even more ambitious idea than the one that you are now considering. It is an idea that we have developed in some detail at the institute in the course of an extensive study of the adjustment process in this country in the past, what other countries have done and lessons we believe we can derive from them for new programs in this country in the future.

Our idea is a simple one in concept, and I am sure you can put it into practice politically. It is based on the same self-financing principle that is in the bill now before the committee but our idea is more ambitious. It would take all of the existing industries in which we have nontariff barrier protection—allocated quotas, voluntary restraint agreements, and the like—and convert those restraints into tariffs or auction quotas, which would have the effect of shifting the billions of dollars of revenue generated by current import restraints away from the foreign exporters who now get most of those benefits and put them into the U.S. Treasury. We would then earmark that new revenue for adjustment efforts by workers and firms adversely affected by trade in those same industries.

In simple terms, it is the user-cost principle. I think we would all recognize that American consumers pay a higher cost when imports are restrained. I am not now arguing the merits or demerits of import restraint in any particular industry. But I think we do recognize that American consumers, and others, pay a higher cost.

What we are suggesting is that this cost be channeled into the U.S. Treasury rather than the coffers of foreign governments and foreign firms, and then dedicated to help the people who are adversely affected by the same imports. So it is a simple idea.

Now, what we have done—and I have attached tables to my testimony depicting that—is to quantify what the idea might mean.

My colleague Gary Hufbauer has analyzed 31 specific industries in which the United States has had or now has import protection of this type; 17 of those industries enjoy such protection today.

If you made the conversion of the type we are talking about, from the existing nature of the restraints over to auction quotas or tariffs, you would raise enough money, about $10 billion in the first year, to finance even a very generous adjustment assistance program for the workers and firms in those industries. Indeed, you would generate enough revenue to make a modest contribution to reducing the overall budget deficit that our Government now faces.

That is the idea in its simple terms. I talk about specific industries, how it would be carried out, and the like in my statement; but that is the idea that I basically want to put in front of you.

The bill that you are now considering, S. 1544, has certain key similarities with our proposal. Both would generate new revenues from trade flows themselves, both would dedicate the trade-generated revenue to trade adjustment, with any excess used to reduce the overall budget deficit. Both would seek first to negotiate the new approach internationally, in light of the implications under our existing GATT commitments, and both envision some similar uses of the resulting revenue, such as voucher systems for retraining.

There are several significant differences, however. Ours would raise a lot more money, and therefore fund more effective and more generous adjustment programs. Ours would match the trade-related revenues to adjustment on an industry-by-industry basis rather than on an across-the-board basis. Third, our proposal would not increase the level of protection, which S. 1544 would do, albeit to a modest extent; ours would simply change the nature of existing restraints and thereby hopefully avoid some of the controversy that might be raised by a new tariff, or by raising industry-specific issues as to whether they should continue to have the protection they now do.

Our bottom line is to support S. 1544 as an important, positive step in the right direction, and an important advance in the evolution of trade adjustment in this country. At the same time, we don't think it goes far enough. We think the proposal that we have outlined is superior in several respects.

We recognize that ours is far-reaching and would require careful consideration in many quarters, particularly here in the Congress and by the administration, before it could be put into effect. So, we would recommend the adoption of S. 1544 now but urge the committee to schedule hearings and seriously consider this broader approach over the next few months to try to create a more comprehensive TAA program over time, to promote the interests of American workers, firms, and overall trade policy.

Thank you.

Senator HEINZ. Dr. Bergsten, thank you very much.

[Dr. Bergsten's written testimony follows:]

A NEW APPROACH TO TRADE ADJUSTMENT ASSISTANCE

Statement by

C. Fred Bergsten, Director

Gary Clyde Hufbauer, Former Senior Fellow*

Institute for International Economics

Before the

Senate Finance Committee

Subcommittee on International Trade

September 17, 1985

The Issue

Adjustment to the economic dislocation caused for US firms and workers by shifts in the composition of international trade in goods and services is the central long-term problem of US trade policy.[1] "Protectionist" pressures are in essence

* Now Wallenberg Professor of International Finance at Georgetown University. Dr. Hufbauer was a Senior Fellow at the Institute for International Economics when preparing the three studies on which this testimony draws heavily: Trading for Growth: The Next Round of Trade Negotiations (September 1985, with Jeffrey J. Schott), which was released on September 10, Trade Policy for Troubled Industries (December 1985, with Howard F. Rosen) and Trade Protection in the United States: 31 Case Studies (December 1985, with Diane T. Berliner and Kimberly Ann Elliott). Details underlying the statements made in this testimony can be found in the three studies, particularly the latter two which were partially supported by a grant from the Ford Foundation.

1. At present, the United States also faces a major problem with the huge and growing deficit in its trade balance. This, however, is largely due to a series of macroeconomic problems including the 30 percent overvaluation of the dollar, the government budget deficit, restrictive economic policies in Europe and Japan, differential growth rates here and abroad, and the trade effects of Third World debt. There is very little that trade policy can do about the trade deficit. However, the

proposals to avoid or delay adjustment to increased import competition.

From the early 1960s through 1980, there was widespread bipartisan agreement in the United States that the government had an obligation to help the relatively few firms and workers adversely affected by imports to help assure that the country as a whole could enjoy the benefits thereof. Hence the program of Trade Adjustment Assistance (TAA) was created by President Kennedy in 1962, implemented for the first time under President Nixon (1969-70), substantially liberalized under President Ford (in the Trade Act of 1974) and used most extensively by President Carter (during the 1980 recession).

These presidents all believed that TAA is both a program which made sense on its merits, in helping firms and workers adjust to hardship caused by trade dislocation, and an essential component of a liberal trade policy. TAA was used by all these presidents, in different cases, as an alternative to higher import barriers or as a supplement to trade barriers. It is clear that the existence of TAA helped build support for trade liberalization and limit the use of import controls for about twenty years, and thus promoted the national economic welfare as well as the interests of the individual firms and workers assisted.

During the past five years, however, TAA has been virtually relegated to the junk heap for three reasons. The first was an

overvalued dollar and some of the other causes of the trade deficit substantially increase the breadth and severity of the adjustment and other trade policy problems.

argument of general principle: the current Administration takes the position that nearly all special entitlement programs should be scrapped. Second, serious doubts were raised over the effectiveness of the TAA program in achieving real adjustment. Third, and perhaps most important, the overwhelming need to cut government expenditures hit hard against any program which, like TAA, had no strong support from domestic interest groups, vested bureaucratic interests or the Administration--though we would note the irony that, when President Reagan recently asked the Secretary of Labor to design an adjustment program for shoe workers as an alternative to new import barriers, the lack of resources under the Job Partnership Training Act seemed to preclude any significant response.

In our view, there are persuasive answers to each of these questions. A wholly new, self-financed TAA program could embody a series of concepts--particularly the concept of "user costs" charged to those who benefit from import flows, for the benefit of those who must adjust to imports--which could make it widely understandable, politically appealing and financially sound. We support S. 1544 as a positive first step in this direction, though we would hope to broaden its approach as soon as possible to deal more extensively with the US trade adjustment problem. We will first sketch our own approach, then indicate its similarities and differences with S. 1544, and conclude with reasons why we support S. 1544 as an important initial step toward the needed revival and reform of TAA.

A New Approach

Our proposed reform of TAA and similar programs in other countries centers on an international negotiation to convert existing non-tariff import barriers, such as "voluntary" export restraints on textiles and apparel and allocated quotas on dairy products, to tariffs (or auctioned quotas) with dedication of the resulting revenues--along with revenues from existing tariffs--to adjustment efforts for the industry in question. The scarcity rents generated by the current forms of protection, which run into billions of dollars for the large protected sectors (such as textiles and steel), are now captured primarily by the foreign exporters. Our proposal would recoup these revenues for the US Treasury,and use them to help workers and firms adjust to the import competition.

The revenues would be utilized for greatly expanded training and relocation programs for workers employed in the troubled industry on the "inventory date" (when temporary protection began), along with early retirement at perhaps 70 percent of the previous wage for five years, and a program of purchasing at face value the tax-loss carryforwards of firms that downsize to an internationally competitive level. On our calculations of existing protection levels for the seventeen American industries now receiving special relief, and even assuming extremely generous TAA benefits calculated at a rate of twice the annual wage level of workers in those industries for each departing worker, such a program in the United States would not only be fully self-financing but would produce a net surplus of nearly

$10 billion over the five years 1986 to 1990 that could be used to reduce the overall budget deficit (see Tables 1 and 2[2]).

Once such a conversion to tariffs or auctioned quotas was in place, the next step would be agreement to reduce the remaining protection by small but steady increments (perhaps 1-3 percentage points annually) until the industries once again were competitive in world markets. This would, in general, permit import penetration to rise by about 1 percentage point annually and reduce employment in the affected industries by 2-5 percentage points annually. Table 3 shows how this would work in the case of textiles and apparel over a period of 10 years or so. It should be noted that the adjustment program outlined in Table 3 (based on Trading for Growth, p. 58) contemplates a gradual phase-out of existing national quotas that are now assigned free of charge to foreign governments. The gradual phase-out would limit US revenue gains but, at the same time, would mitigate the impact on existing foreign suppliers to the US market.

In essence, the greatly expanded TAA program would made credible, and even politically attractive, the reduction and eventual elimination of special protection. It would utilize the "user cost" principle by taking the revenues extracted from the users of imports, via temporary trade barriers, and devoting them to workers and firms adversely affected by those same imports.

2. As shown in Table 1, the overall TAA program we propose would be fully self-financing even without the dedication of existing tariff revenues. However, as shown in Table 2, several individual industries would then need to pick up revenues from others to finance the assumed level of benefits.

A Comparison with S. 1544

There are several key similarities between our proposals for TAA reform and S. 1544:

-- both would generate new revenue from trade flows themselves;

-- both would dedicate the trade-generated revenue to TAA, with any excess used to reduce the overall budget deficit;

-- both would seek first to negotiate the new approach internationally, in light of the implications for our existing GATT commitments and the desirability of focussing attention on innovative approaches in the context of a new multilateral "round";

-- both envisage some similar uses of the resulting revenues to promote adjustment, such as voucher systems for retraining.

At the same time, there are several significant differences between the proposals. Ours would generate and use trade-related revenues on a closely matched basis industry by industry (see Table 2), whereas S. 1544 would do so across-the-board. Ours thus has the virtue of applying the "user cost" principle more precisely and directly, whereas S. 1544 has the virtue of avoiding industry-specific discussions and providing TAA funds for industries (such as footwear) that do not now receive special protection.

A second important difference is that our proposal would generate higher levels of additional revenue for TAA purposes: about $8.7 billion in new revenue in 1986 if the proposed conversions were immediately carried out for all 17 industries,

as opposed to under $4 billion for S. 1544 even with the maximum 1 percent tariff. Our approach could thus fund a more ambitious pace of adjustment, on humane terms, and offer a meaningful alternative to the entrenched regimes of special protection.

Third, our proposal would not increase the existing level of protection (assuming a faithful and accurate conversion of existing non-tariff restraints into their tariff equivalents) whereas S. 1544 would do so to a modest extent. In principle, this suggests that our approach might be more easily negotiated internationally. However, it must be recognized that our approach would violate existing GATT tariff bindings in a major way and thus necessitate Article XXVIII negotiations to redress any imbalance in concessions; since there would be no net change in protection, however, and both increased transparency and greater prospects for subsequent reduction of the barriers would result, little if any compensation should actually be required. Less defensibly, some exporting countries might also object to giving up the rents that they now obtain from the present technique of allocating quotas to foreign governments and thereafter to individual suppliers. However, we regard this transfer of benefits to the United States from Japan, Korea and others as an important benefit of the scheme, and as the principal means of funding adjustment.

Fourth, our proposals go beyond S. 1544 in suggesting new techniques for promoting adjustment and providing more generous benefits for both workers and firms. Our goal is to induce them to accept the downsizing which seems required in virtually all

adjustment cases; in all the US cases of special protection that we studied, only one very small industry (bicycles) seems to have recovered to a higher level of output in the absence of ongoing trade protection.

Conclusions

On balance, we believe that S. 1544 would provide several important advances in the evolution of TAA in the United States--particularly the earmarking of new, trade-generated revenues to finance the program. We therefore urge the Congress to pass it prior to expiration of the existing program on September 30.

At the same time, we do not believe that S. 1544 goes nearly far enough to meet the needs of American workers and firms affected today, and doubtlessly in the future, by trade flows. In particular, it would not provide enough revenue to finance meaningful adjustment (and thus eventual trade liberalization) in such large industries as textiles/apparel, steel and dairy. Indeed, even for industries newly impacted by trade dislocation, it is not clear whether S. 1544 would offer enough help to provide an acceptable alternative to the pursuit of special protection.

We fully recognize that a proposal as far-reaching as our own will require careful consideration in many quarters, particularly the Administration and the Congress. In the meantime, we recommend the adoption of S. 1544 now, but urge the Committee to schedule hearings on our broader approach in six months or so in order to consider building on the foundation laid by S. 1544 and creating a more comprehensive TAA program to promote the interests of American workers, firms and overall trade policy.

TABLE 1

Gross Revenues, Expenditures, and Net Revenues: Hypothetical Trade Adjustment Programs for 17 Industries Now Granted Special Protection [1]

(in millions of dollars)

	1986	1987	1988	1989	1990
Gross revenues:					
Total (including existing tariffs)	15,060	14,251	12,999	11,816	10,538
New (from conversion of existing non-tariff barriers (NTBs) to new tariffs or auctioned quotas)	8,703	7,493	6,674	5,893	5,089
Assumed expenditures for TAA [2]	5,355	5,166	5,055	4,742	4,520
Net surplus of hypothetical TAA program (including existing tariffs)	9,705	9,085	7,944	7,074	6,018
Net surplus from conversion of existing NTBs to new tariffs or auctioned quotas	3,348	2,327	1,619	1,151	567

1. Based on estimates in Hufbauer, Berliner, and Elliott, Trade Protection in the United States: 31 Case Studies, Washington: Institute for International Economics, December 1985. The 17 industries are listed in Table 2.

2. Expenditures are based on twice the average annual wage of production workers in the industries. This would cover not only assistance to workers (by far the largest use of funds) but also assistance to firms and communities.

TABLE 2

Net Surplus (Deficit) of Hypothetical Trade Adjustment Programs for Each of 17 Industries [1]

(in millions of dollars)

Industry		1986	1987	1988	1989	1990
Book Manufacturing (all from new revenues)		(60)	(44)	(31)	27	(14)
Glass Products (all from existing tariffs)		40	34	28	25	14
Rubber Footwear (all tariffs)		130	126	123	119	113
Ceramic Articles (all tariffs)		56	52	51	47	44
Ceramic Tiles (all tariffs)		32	32	31	32	32
Orange Juice (all tariffs)		150	155	160	165	170
Canned Tuna (all tariffs)		(2)	(4)	(7)	(9)	(12)
Textiles & Apparel:	total	3,145	2,945	2,350	2,005	1,580
	new	(1,055)	(1,565)	(1,680)	(1,575)	(1,470)
Carbon Steel:	total	2,572	2,533	2,485	2,399	2,304
	new	2,112	2,043	1,975	1,869	1,754
Specialty Steel:	total	20	9	(3)	(19)	(2)
	new	(30)	(41)	(53)	(49)	(28)
Automobiles	total	1,000	1,000	900	800	600
	new	10	(88)	(257)	(450)	(720)
Maritime (all new)		2,301	1,989	1,688	1,402	1,124
Sugar (all new)		71	45	50	10	4
Dairy Products (all new)		46	90	100	160	191
Peanuts (all new)		(20)	(18)	(18)	(17)	(17)
Meat:	total	(6)	(19)	(43)	(72)	(117)
	new	(63)	(84)	(116)	(153)	(176)
Fisheries:	total	230	160	80	—	—
	new	115	80	40		

1. Based on estimates in Hufbauer, Berliner, and Elliott.

TABLE 3

Hypothetical Adjustment Program for Textiles and Apparel

	US exports (million pounds)	US imports (million pounds)	Fixed national quotas (million pounds)	Auctioned quotas (million pounds)	Program Revenue (1): Existing tariffs (million dollars)	Program Revenue (1): Quota auctions (million dollars)	Program Revenue (1): Total (million dollars)	Adjustment expenditures (million dollars)	US production (million pounds)	US consumption (million pounds)	Imports/consumption (percent)	Employment (000 jobs)
Actual												
1980	1,319	1,455	n.a.	—	n.a.	n.a.	n.a.	n.a.	11,070	12,026	12.1	2,112
1981	1,017	1,715	n.a.	—	n.a.	n.a.	n.a.	n.a.	11,546	12,246	14.0	2,067
1982	704	1,707	n.a.	—	n.a.	n.a.	n.a.	n.a.	10,100	11,103	15.4	1,911
1983	701	2,160	n.a.	—	n.a.	n.a.	n.a.	n.a.	12,096	13,555	15.9	1,907
1984	684	2,992	2,992	—	n.a.	n.a.	n.a.	n.a.	12,328	14,636	20.4	1,980
Projected (2)												
1985	735	3,172	2,693	479	3,850	159	3,909	1,855	12,492	14,929	21.2	1,927
1986	790	3,362	2,424	938	3,330	310	3,640	1,715	12,655	15,227	22.1	1,878
1987	850	3,564	2,181	1,383	3,136	456	3,592	1,645	12,818	15,532	22.9	1,831
1988	913	3,777	1,963	1,814	2,912	599	3,511	1,580	12,978	15,842	23.8	1,783
1989	982	4,004	1,767	2,237	2,640	737	3,377	1,575	13,137	16,159	24.8	1,738
1990	1,056	4,244	1,590	2,654	2,340	878	3,218	1,470	13,295	16,483	25.7	1,696
1991	1,135	4,499	1,431	3,068	1,984	1,015	2,999	1,400	13,448	16,812	26.7	1,656
1992	1,220	4,769	1,288	3,481	1,578	1,152	2,730	1,365	13,599	17,148	27.8	1,617
1993	1,311	5,055	1,159	3,896	1,112	1,286	2,398	1,295	13,747	17,491	28.9	1,580
1994	1,410	5,358	1,043	4,315	590	1,425	2,015	1,295	13,893	17,841	30.0	1,543

n.a. Not applicable.

Sources: US Commerce Department, International Trade Administration, Major Shippers of Cotton, Wool, and Man-made Fiber Textiles and Apparel, various issues; US International Trade Commission, US Imports of Textiles and Apparel under the Multi-Fiber Arrangement 1976-83, USITC pub. no. 1539, June 1984; and US Imports of Textiles and Apparel under the Multi-Fiber Arrangement, January - June 1984, USITC pub. no. 1635, January 1985; Hufbauer, Berliner, and Elliott.

(1) The revenue from existing tariffs is based on the average of tariffs on both textiles and apparel. The average tariff rate is assumed to decline from its 1984 level of 22 percent by two percentage points per year, starting in 1985. The quota auction revenue is based on the assumption that the quota auction rate remains constant at 6 percent.

(2) The projections assume 2 percent annual growth in US consumption; 100 percent utilization of global import quotas, which increase by 6 percent a year; and 7.5 percent annual growth in US exports (thereby maintaining the average ratio of exports to US production over the period 1974-83). Projected US production is calculated as a residual derived by adding consumption and exports and subtracting imports. Once the foreign exchange value of the dollar reaches more competitive levels, exports could do better than the projections in the table.

Senator HEINZ. I gather that you would agree that the present laws and authorities on the books—and I include Dr. Bendick on this question as well—such as the Job Partnership Training Act, are not a substitute for a solid trade adjustment assistance program. Is that correct?

Dr. BERGSTEN. I feel that very strongly, yes.

Senator HEINZ. Dr. Bendick, would you agree?

Dr. BENDICK. I would concur. The Job Training Partnership Act title III is operating on a very limited scale and with very mixed results from locality to locality.

Senator HEINZ. And I gather, Dr. Bergsten, from your advocacy of passing this legislation, that you do not believe the sort of import fee proposed here poses a danger of retaliation or expansion of the import-fee concept into a broader surcharge?

Dr. BERGSTEN. No; I do not think it provokes a risk of retaliation. I think the legislation is correct in seeking to negotiate a change in the GATT rules that would permit any country to apply this kind of measure. I am not sure whether other countries would do it; most have existing manpower programs, but they might look at it as an additional source of revenue and emulate what we did. I think emulation and not retaliation is the more likely international response once it were negotiated.

Senator HEINZ. Now, I believe Senator Danforth has asked this question of other witnesses, but I was unable to attend.

Do you believe, either or both of you, that it is justifiable to provide better unemployment or adjustment benefits to those displaced by imports than to those who become unemployed for other reasons?

Dr. Bendick.

Dr. BENDICK. It is difficult in many cases to justify special assistance to workers who have had good jobs and have now lost them, beyond what you provide to workers who have never enjoyed such a solid employment history. There are many disadvantaged workers in this society, such as are supposed to be served by title II of the Job Training Partnership, who are not provided Government assistance at all simply because of the unavailability of funds. A strong case can be made on equity grounds for helping the disadvantaged at least as much as you help the trade-dislocated. On the other hand, the trade-dislocated have lost something. The change in trade patterns, the change in Government policy, has cost them something, and there is an equity case you can make in terms of restoring what they had taken away from them that does justify that kind of extra assistance.

Senator HEINZ. In previous trade liberalization measures we have been consistently moving toward freer trade, and we have generally had the support or at least the neutrality of organized labor, as a result of the promise of a safety net designed specifically to take care of the casualties of the free trading system. Our interest has been that of trying to make sure that through a more dynamic economy, one that does not coddle ad infinitum dying or nearly dead industries, we become a more efficient economy. And as a result, everybody is better off in the wiser employment of those resources, and we have that safety net to take care of these temporarily—those who are casualties of free trade.

Does that argument make sense to you?

Dr. BENDICK. It does.

Senator HEINZ. Dr. Bergsten.

Dr. BERGSTEN. Oh, yes, I would concur in that approach. I would prefer to see an effective adjustment program that was available for workers and firms displaced for whatever cause; but I certainly think the principle you adduced is proper and correct.

Pragmatically, of course, it is much more feasible to provide the funding programs necessary to help a smaller group of workers, those who are trade impacted, than the entire universe.

And, finally, I would come back to the linkage that I mentioned in my opening statement. We have a natural linkage, I think, between the revenues generated by what I call the "user costs" of trade restraints and helping those hurt by the trade flows. The consumers do have to pay more. It would be eminently logical, I think, to take that pot of revenue and apply it to help the people adversely affected by the same imports. It is a natural linkage which I think would make political as well as economic sense. You can do it either the way the bills do or the way our proposal does, but I think it is carrying out a very logical and defensible principle.

Senator HEINZ. Turning to your proposal, Dr. Bergsten, how do you rate the chances that we might be able to attain international agreement on the sort of funding plan which you proposed, or for that matter in the plan of the bill before us?

Dr. BERGSTEN. I think there is a very good chance. The rest of the world is very worried about the outlook for U.S. trade policy, as they should be. I think they recognize, partly from their own experience, that an effective domestic adjustment program with adequate funding is essential to prevent a breakdown of the kind of open trading system they want to see, and I think they would support particularly positively a U.S. initiative in the adjustment area. Frankly, that is not what they are expecting. They are expecting U.S. trade initiatives in a less constructive arena.

If the administration and Congress put together a positive adjustment approach, albeit with some new wrinkles about how to finance it, I think the rest of the world would be quite positively inclined.

Now, under our approach, a GATT negotiation would be required. As I mentioned, we would change existing allocated quotas to auction quotas or tariffs. To the extent that were done by increasing tariffs, we would have to go to the GATT and get approval, because some of those tariffs are bound.

However, the net effect on protection would be zero. Indeed, we would change the form of protection in a way I think would be welcomed abroad.

I think that negotiation could be successful and would indeed be welcomed as a very positive U.S. contribution to getting the trading system back on track.

Senator HEINZ. Dr. Bergsten, thank you. I am going to recognize Senator Bradley but, before I do, I want to ask unanimous consent to insert the statement of Senator Baucus at the beginning of the hearing.

Without objection, so ordered.

Senator Bradley.

Senator BRADLEY. Thank you very much.

Each of you has read the various proposals, and I think the quota auction is a variation on some of the things we have proposed. What is your judgment as to whether GATT would be receptive to this kind of funding mechanism, either the small, less than 1-percent tariff or the quota auction, given, as you have pointed out, the real adjustment problems that exist in every country, and that includes everybody from Indonesia to West Germany?

Dr. BERGSTEN. My guess is that reaction would be positive. I have tried out our proposal on high-level trade officials of some foreign governments, and they have immediately said, "Well, you would be violating tariff bindings, so you would have to come negotiate it"; but there is a standard practice under GATT article 28 for exactly this kind of device.

What we have proposed is not new; there have been conversions in the past from quota systems, like the American selling price of various products, to tariffs. You have to take that into the GATT, and get international agreement, so people will agree that the rate of tariff you are setting is correct and not adding a new measure of protection.

But I have had a reaction that suggests to me they would be positive. I have not tried out the low-rate tariff, but I think, given the context I mentioned a moment ago and the positive cast this would give to the whole thrust of American trade policy, there would be a very strong probability of acceptance. The others, of course, would insist they could do the same thing, but that is envisaged in the legislation, and it seems to me eminently reasonable.

Senator BRADLEY. It is a price worth paying, right?

Dr. BERGSTEN. I think they would view it so.

Senator BRADLEY. If you get to the legislation itself——

Dr. BERGSTEN. In fact, just to add, it might not even be a price in a net sense. As I mentioned, they might well emulate our practices; all of them are looking to reduce their budget deficits, and they might regard it as somewhat welcome, as well.

Senator BRADLEY. To get to the general issue of when the workers get their training—and I would like to ask Dr. Bendick this—does it make sense to provide for some kind of on-the-job training? Should we be saying: "In order to get unemployment compensation, you have to be in a job-training program, so go into the local community college and take a general course." Or should we be saying, "Look, you've got unemployment compensation no matter what. Look around, take your voucher, go to a company that might want you but needs to have you retool, and use your voucher to retrain yourself with some kind of on-the-job training."

Dr. BENDICK. The entire thrust of experience—not only from recent programs with dislocated workers but also from 20 years of experience retraining disadvantaged workers—pushes in the direction of more and more connections with on-the-job training, more and more direction by actual employers. You will get the largest bang per buck out of on-the-job training of any of the mechanisms you are talking about.

Senator BRADLEY. How many dislocated workers do you think there are in the United States, dislocated from imports? I know the institute has made a rough estimate that it could be close to

400,000, and there are about 30,000 now getting trade adjustment assistance. There are people in the administration who say, "You know, a dislocated worker is a dislocated worker. How can you tell they are dislocated from imports?" What would be your response to that?

Dr. BERGSTEN. I think it is logically correct to say that one cannot distinguish precisely the cause of dislocation of a particular worker. Almost every industry that we have studied clearly faces multiple causes of difficulty, and it is hard to say that worker A is dislocated for a different reason from worker B.

We, however, would basically rely on the kind of test that has been traditional in U.S. trade law, the escape clause and the trade adjustment assistance statute itself. If the import flows were a major or primary cause of the injury and the dislocation for workers, we would then regard the industry as import impacted, essentially give it the benefit of the doubt, and apply trade adjustment assistance to that industry. That may err a bit on the generous side compared with trying to narrow down to two-thirds of the workers in an industry because two-thirds of the cause was imports. We don't think you can cut it that fine.

And so, particularly with this new revenue source that we have suggested, which will provide a surplus, we think you could err on that generous side and do a positive service for the workers themselves as well as for trade policy.

Senator BRADLEY. What about providing the assistance and retraining not only to industries that are themselves adversely affected but also to suppliers?

Dr. BERGSTEN. That is not something we looked at in our latest study in much detail, but I have in previous work and think that is a desirable idea.

Senator BRADLEY. Thank you.

Senator DANFORTH. Senator Grassley.

Senator GRASSLEY. Mr. Chairman, I don't have any questions of this panel, but I did want to take the opportunity to remind the committee that when this comes up for discussion I will have an amendment that I want to propose to the committee that would include people displaced from agriculture as a result of agricultural imports.

Dr. BERGSTEN. I might just mention, if I could butt in, that in our analysis that I mentioned of 17 industries, where we would try to change the existing nature of import relief in order to provide help for workers, agriculture is included. We have done some analysis of dairy, sugar, beef. It might be a helpful input as you think about it.

Senator GRASSLEY. It would be very helpful, because there is a lack of statistical base on that; so whatever you have would be appreciated. Thank you very much.

Senator DANFORTH. Gentlemen, thank you very much. I apologize for not being here for any of your testimony, because of the way the votes fell this afternoon.

I just have one question that I would like to pose, and then I would also like to ask if you would be receptive to having written questions submitted by Senators. I know Senator Roth has some questions and maybe some other Senators also.

What do we do about the situation in Windsor, MO? Dr. Bergsten knows where Windsor is; Senator Bradley knows where Windsor is. There are a lot of former Missourians around here.

Senator BRADLEY. I used to beat them.

Senator DANFORTH. There are a lot of people beating on Windsor these days. [Laughter.]

Windsor has had a shoe plant close, and, as is true with a lot of smaller communities, it is a major blow when that happens.

But let's not just take Windsor, let's take a hypothetical situation: Suppose that this is a community with 500 people, that the only real employer other than some retail shop is a shoe factory, and that the average age of the people is 55 years old. If the shoe factory closes because of imports, should trade adjustment cover that, or what can we do about that?

Dr. BENDICK. Senator, your earlier statement about the problems of Windsor, MO, were exactly correct. If there is no generation of jobs in the community, then all the retraining in the world is not going to address the problems effectively. Conversely, as I believe you said earlier, when you have job generation, by hook or by crook, people get ready for those jobs. The problem is jobs much more than the retraining for them.

Senator DANFORTH. But what should we do?

Dr. BENDICK. The mechanisms which the Federal Government has established for dealing with such community job development problems typically are not found under Trade Adjustment Assistance. They are found under programs of the Economic Development Administration, some of the Housing and Urban Development programs like Urban Development Action Grants, and so forth. Those programs have endured severe budgetary cuts in the last 5 years. Those programs are not perfect in their execution in many ways; and yet the problems on which you are focusing suggest that what those programs need is enhanced funding and improvement in how they operate, but certainly not funding cuts.

Mr. BERGSTEN. I would add one dimension to the existing program to try to deal with at least part of the problem in Windsor—namely, the aged worker who really doesn't have much scope for movement. That is early retirement, financed from this program. We have looked at a lot of other industrial countries as they have tried to formulate an adjustment program. And many of them, based on much longer experience than the United States has had with worker adjustment efforts, have concluded that when workers reach a certain age, their late fifties or older, the prospects of retraining and/or relocating them for different jobs is just very low.

And so the humane thing, perhaps economically the most efficient as well, is to provide early retirement. That of course gets to the funding level. And, again, our proposal would provide adequate funding to do that. Yours would begin to move in that direction. But it may simply be that one has to recognize that an industry like U.S. footwear does, over time, have to downsize. The question is: How to do it humanely? Early retirement may have to play a part in that, which we have not so far come to grips with.

Senator DANFORTH. Thank you.

Senator Roth.

Senator ROTH. Well, I usually have questions, but I haven't heard the testimony. I regret that I was over at the voting and didn't hear it. I would express again my appreciation to both of you for being here.

Senator BRADLEY. Mr. Chairman, could I ask one more question?

Senator DANFORTH. Yes.

Senator BRADLEY. What is the amount of revenue that you estimate your proposal will generate?

Dr. BERGSTEN. Simply from the conversion of existing quantitative restrictions, where the revenue goes to the foreigners by virtue of the way they are carried out, you could generate in 1986 $8.7 billion by shifting those over to tariffs and quota auctions, where the U.S. Treasury would get the rents.

Senator BRADLEY. Yes. What if you shift quantitative restrictions to auctioning the quotas?

Dr. BERGSTEN. The same thing. We have assumed that you switch the existing allocated quota either to a tariff at the equivalent level of protection, or an auction quota—at the same quota level, but you auction it off and you get the revenue. So, either way it would be $8.7 billion from these 17 industries that now enjoy special protection.

Senator BRADLEY. And those 17 industries? Could you run down that list?

Dr. BERGSTEN. Yes. Some of them will surprise you; you may not even know they have it.

Senator BRADLEY. We have a sugar quota—right?

Dr. BERGSTEN. Oh, yes. We have all the big ones—textiles, apparel, carbon steel, autos. The remaining restraints on autos we did put in here. We have sugar, dairy, meat, peanuts, maritime, and then some small ones—orange juice, ceramic tile, rubber footwear, glass products, book manufacturing. There is a list attached to the testimony that I gave you.

Senator BRADLEY. So, essentially you are saying, instead of us saying to Hong Kong "you get *x*-percent of our markets" we say "*x*-percent of our market is now available for bid," and countries essentially pay for the right to export to the United States. Right?

Dr. BERGSTEN. That is right.

Senator BRADLEY. Now, one of the concerns that I have heard voiced about this kind of proposal is that you would have a few NIC's dominating the whole field, and you would have the Bangladeshes or all the very, very poor, et cetera, essentially having no access to the market at all, and the poor would get poorer and the rich would get richer.

What is your response to that?

Dr. BERGSTEN. I think that is very unlikely. Bangladesh, per se, might not be competing against Hong Kong in the auction. The United States retail chain which decided it wanted to buy blouses from Bangladesh would be in there competing with another United States retail chain that wanted to buy trousers from Hong Kong. And the first retail chain might have more buying power than the second.

That is an important point. You are not selling all of the quotas, or even maybe any of them—it depends on the technique—to the foreign exporter. You are selling them to whoever wants to buy

them; but whoever buys them gets the right to import, and that is opposite, as you probably know, from what happens now where there are people in Hong Kong hotels selling export quota tickets.

Senator BRADLEY. Oh, yes.

Dr. BERGSTEN. Many of them haven't produced any textiles or apparel for 10 years; but they sell the tickets, and they live a very fancy life. There is no reason for them to get that revenue.

Senator BRADLEY. You would do a worldwide quota, then?

Dr. BERGSTEN. We would phase in the worldwide quota. You could, if you wanted to do it cold turkey, go to the worldwide quota immediately. That would raise problems for some foreign exporting countries who aren't so competitive, some of the Latin American countries in textiles, for example, so you might want to phase in the global quotas and phase down the national quotas, simply for reasons of not hitting the foreign country cold turkey. But if you wanted to do it, you certainly could. And over time you would shift the system completely.

Senator BRADLEY. Thank you.

Senator DANFORTH. Gentlemen, thank you both very much, and my apologies for the confused way in which the hearing has been held. I want to assure you that nobody sitting in front of you scheduled the affairs of the Senate today.

Dr. BERGSTEN. And any written questions we would be delighted to answer.

Senator DANFORTH. Thank you both very much.

[Whereupon, at 4:10 p.m., the hearing was concluded.]

[Communications subsequently submitted for the record follow:]

STATE OF NEW YORK
DEPARTMENT OF LABOR
STATE OFFICE BUILDING CAMPUS
ALBANY, N.Y. 12240

LILLIAN ROBERTS
COMMISSIONER OF LABOR

September 30, 1985

The Honorable John C. Danforth, Chairman
Subcommittee on International Trade
Senate Finance Committee
219 Senate Dirksen Office Building
Washington, D.C. 20510

ATTN: Ms. Betty Scott-Bloom

Dear Senator Danforth:

I would like to submit the enclosed statement for the Subcommittee hearing record on the Trade Adjustment Assistance program. I commend the Subcommittee's efforts on behalf of this valuable program and appreciate the opportunity to convey New York State's strong support for TAA extension and reauthorization.

Sincerely,

Lillian Roberts

Lillian Roberts

Enclosure

STATEMENT OF
LILLIAN ROBERTS
COMMISSIONER OF LABOR
NYS DEPARTMENT OF LABOR

REGARDING THE
TRADE ADJUSTMENT ASSISTANCE PROGRAM

SUBMITTED FOR THE RECORD

SUBCOMMITTEE ON INTERNATIONAL TRADE
SEPTEMBER 17, 1985

New York State strongly supports the extension of the Trade Adjustment Assistance (TAA) program. The expiration of this important program will have an extremely negative impact on New York State's trade-affected workers.

Among the 6,700 workers who became eligible for Trade Act benefits in New York State this fiscal year, 2,400 adversely affected workers are currently receiving $320,000 per month in Trade Readjustment Assistance (TRA) benefits under 60 active Trade Act certified petitions. In addition, more than 100 New York State Trade Act petitions, covering several thousand workers, are pending before the U.S. Department of Labor's Office of Trade Adjustment Assistance. Should the Trade Act not be extended, both of these groups of workers will lose the benefits to which they are entitled ater September 30, 1985.

Additionally, 727 workers are enrolled in approved occupational training programs funded at a cost of $2,471,800. Although these individuals will be permitted to extend their participation past the September 30th expiration of the program, the loss of entitlement to basic allowances, extended allowances for training, transportation allowances, and/or subsistence allowances will seriously jeopardize the ability of many workers to remain in training through completion. Resulting drop-outs will mean not only a waste of Trade Act funds already invested in these individuals but a loss of human potential as well.

We are fully aware that the Administration has sought to consolidate the program with the Job Training Partnership Act (JTPA) Dislocated Workers program, alleging shortcomings in the program. However, we believe the record clearly demonstrates that the manner in which the program has been administered by the U.S. Department of Labor (USDOL) rather than statutory shortcomings, has been the primary hindrance to optimal program functioning. For example, the Act, as amended in 1981, is still being administered without promulgated regulations.

Furthermore, inexcusable delays by USDOL in the fund allocation process creates uncertainty as to the timing and amount of grants to the states, severely decreasing program participation levels. For fiscal year 1985, New York did not receive its first "Notification of Obligational Authority" for Trade Act funding until May 15, 1985, more than seven months after the start of the fiscal year.

New York State firmly opposes the substitution of JTPA Dislocated Workers discretionary funds for the TAA program. The Trade Act recognizes, and provides for, the unique situation of its target population as contrasted to the target groups of other programs also designed to provide re-employment and training services. The TAA program was designed to deal specifically with the re-employment needs of individuals who have a long term, recent work history; have been employed at relatively high skill and income levels; and have lost their jobs directly as a result of U.S. trade policy.

In recognition of these differences, the Trade Act encourages the retraining of these workers at or near their previous skill and income levels. Consequently, it provides benefits significantly different in nature from other federal programs. A maximum of 78 weeks of benefit payments, including regular Unemployment Insurance (UI) and 104 weeks of occupational retraining are authorized by the Act. These specific Trade Act benefit levels recognize the unique plight of the trade-affected workers and provide for training opportunities and other benefits not possible under JTPA.

The issue of administrative funding for the TAA program is an additional concern of great magnitude. For FY 1985, Congress did not appropriate any funds for TAA administration. As a result, USDOL directed states to use UI administrative funds for TAA administration.

This action added to the programmatic difficulties experienced by the TAA program this fiscal year, causing inadequate outreach and counseling activities and a significant reduction in program participation. At the same time, UI systems in many states were undergoing major retrenchment due to declining workloads and a widespread non-personal services (NPS) shortfall. Consequently, many states were hard-pressed to administer the TAA program with diminishing UI resources. Accordingly, we strongly urge the Subcommittee to include language in its TAA authorizing legislation or the Subcommittee Report, stipulating that discrete TAA administrative funding be provided.

As Commissioner of the New York State Agency charged with primary responsibility for the well-being of our work force, I commend the Subcommittee for its efforts to maintain assistance to trade-affected workers. I strongly encourage continuation of much needed benefits provided under the Trade Act. In the event that Congressional action on authorizing legislation has not been completed by September 30, 1985, I urge enactment of a temporary extension of the existing program until a reauthorizing measure is adopted.

INTERNATIONAL TRADE COUNCIL
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Telephone (202) 547-1727

TESTIMONY OF DR. PETER T. NELSEN, PRESIDENT, INTERNATIONAL TRADE COUNCIL, PERTAINING TO SENATE CONSIDERATION OF S. 1544, THE TRADE ADJUSTMENT ASSISTANCE EXTENSION AND REFORM ACT OF 1985, BEFORE THE SUBCOMMITTEE ON INTERNATIONAL TRADE OF THE SENATE FINANCE COMMITTEE.

HEARING DATE: SEPTEMBER 17, 1985

Mr. Chairman, and members of the Subcommittee on International Trade, I am Dr. Peter J. Nelsen, an economist and President of the International Trade Council and Chairman of the International Development Institute (IDI). IDI is a research and educational organization dedicated to the development of international trade and the transfer of appropriate technology to meet basic human needs. The International Trade Council is a trade association of large and small businesses gathered for the promotion of U.S. export and free trade.

Mr. Chairman, as much as we would like to endorse S.1544 and as much as we sympathize with the plight of the many Americans who have lost jobs due to noncompetitive U.S. industry, we can not conclude that S.1544 provides any meaningful solution.

S.1544 proposes another government entitlement another general U.S. government trust fund which is available to all eligible citizens who meet the criteria as defined in the bill. This method of financing could experience an early crisis if the U.S. employment situation is not reinforced by the creation of a viable competitive U.S. export marketing policy.

The notion of assigning $4,000 for each qualified worker is essentially applying a band-aid to the problem of long term retraining and creation of meaningful, profitable employment.

Recent history has demonstrated that solutions in the nature of S.1544 can only be temporary and costly. For example, after the institution of the trade adjustment assistance program in the 1960's, it soon became apparent that the program involved more assistance than adjustment - cash payments rather than long term training. We fear that a new assistance program as envisioned

by S.1544 with job retraining vouchers would only be putting the funds in the hands of a different disbursing agent.

The real solution is to maintain open U.S. markets and at the same time promote U.S. export. Open markets serve America in very real ways. Consumers gain access to a greater variety of products at lower prices. Domestic industries learn to adjust to changing technology before they become totally noncompetitive and for those industries with vision, the benefits of successful exportation of goods and services are reaped in profit margins. Moreover, trade is the primary source of hope for the poor of the world, and a stable economic order increases their chance of being lifted out of poverty.

The implications of a vibrant U.S. export industry are great. It has been estimated that for every billion dollars in export, 25,000 U.S. domestic jobs would be created. This means that if the U.S. would pursue policies to achieve a trade balance through aggressive U.S. export while avoiding U.S. trade barriers, a net gain of 3.7 million jobs could be created.

Finally, S.1544 intrudes on the existing structure of GATT. If this program was implemented, it would be linked to negotiations which would add a provision to GATT giving all member countries the right to assess a small fee on imports in order to finance adjustment programs.

This type of linkage to GATT weighs down the negotiation process and burdens member states with the question of setting up another program by attaching another item of expense on its imports. This burdensome point of negotiation, all but small in the eyes of the U.S., comes at a time when the U.S. is desperately trying to persuade other nations to lower trade

barriers. This discussion cannot help the overall U.S. position at these sensitive conferences.

The solution to the present U.S. trade deficit dilemma is to avoid all negative legislation, avoid all protectionist trade barriers or substitutes for trade barriers, and rigorously promote U.S. export. Mr. Chairman, President Reagan is about to announce a clearer trade policy stance which expounds the merits of opening markets abroad. This represents a positive, expansive economic approach which in the short and long run is a much more powerful mechanism to produce meaningful American jobs. It is my hope and my recommendation that you seriously consider avoiding legislation that may net out costing the U.S. Treasury more dollars and costing U.S. negotiators the lowering of trade barriers in the GATT conference to come.

Thank you, Mr. Chairman, and members of the Subcommittee on International Trade for the opportunity to submit these written remarks pertaining to Senate consideration of S.1544, the Trade Adjustment Assistance Extension and Reform Act of 1985.